LEWES DISTRICT COUNCIL

FINAL REPORT TO THE AUDIT AND STANDARDS COMMITTEE

Audit for the year ended 31 March 2015

21 September 2015

BDO

CONTENTS

OVERVIEW
Significant audit findings

This summary covers the significant findings from our audit of Lewes District Council (the 'Council') for the year ended 31 March 2015. However, you should read the entirety of this report, as there may be other matters raised that you consider important.

AREA OF AUDIT	SUMMARY
Independence	We have not identified any potential threats to our independence as auditors.
Financial statements audit status	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. We have obtained sufficient, appropriate audit evidence for the significant issues and risks identified in our Audit Plan. Our final audit materiality is £1,419,000 (see appendix III) and we have reported all non-trivial unadjusted audit differences greater than £28,000. Material misstatements were identified in respect of accounting for non-current assets, which have been corrected in the revised financial statements. The net effect of these was to reduce the surplus on the provision of services by £1.853 million, and increase other comprehensive income by £1.761 million. The remaining balance of £92,000 represents amendments in the 2014/15 financial statements arising from prior period adjustments. In addition, a total of £7.135 million has been reclassified from the capital adjustment account to the revaluation reserve in respect of current and prior year adjusted errors. The general fund balance as at 31 March 2015 is not affected by any of these adjustments. There is one unadjusted audit difference (see appendix II) which would increase the revised surplus on the provision of services in the CIES by £159,000 to £2.852 million (from £2.693 million). The difference is an audit extrapolation and arises because an item in our audit sample of expenditure related to 2013/14, but had not been accrued for in the prior year. 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 2015.
Control environment	We identified no significant control deficiencies. Other deficiencies have been discussed with management and recorded in Appendix IV.
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" (CIPFA / SOLACE).
Whole of Government Accounts (WGA)	The Council is below the threshold for full assurance review.
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 2015. 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 2015. 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.

- Clearance of outstanding issues raised with management, including the receipt of evidence to support remaining investment property and trading operations income samples
- Completion of testing on the council tax reduction scheme and housing benefit payments (initial 60 cases)
- Final review of our audit work at manager and engagement partner level, and clearance of any review points arising
- Receipt of final draft statement of accounts for agreed amendments
- Subsequent events review
- Management representation letter, as attached in Appendix VI, to be approved and signed.

TIMETABLE TO COMPLETE

The anticipated timetable to complete is as follows:

ACTIVITY	DATE
Audit and Standards Committee meeting	28 September 2015
Completion and issue of the auditor's report	30 September 2015

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 2015.

FEES AND NON AUDIT SERVICES

A summary of fees for audit and non-audit services for the period from 1 April 2014 to date is set out below:

	£
Audit fees	61,980
Certification fees	(1) 9,530
Independent examinations	2,000
Non-audit services:	
Pooled capital receipts	(2) TBA
TOTAL FEES	**73,510**

(1) Work remains ongoing on the housing benefit subsidy return and the fee shown above is the current scale fee.

(2) Non-audit fees in relation to the certification of Pooled Housing Capital Receipts which are now outside of the certification regime and are subject to a separate Engagement letter. The scope of this work, and therefore the fee, is still to be agreed.

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 and the audit manager for 10 years.

Key audit staff	Years involved
Robert Grant - Audit Engagement Partner	1
Jody Etherington - Audit Manager	1

INDEPENDENCE DECLARATION AND APPROPRIATE SAFEGUARDS

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

AUDIT SCOPE AND OBJECTIVES
Code of audit practice requirements

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 2015 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 (subject to a de minimis limit).
7. The audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

FINANCIAL STATEMENTS
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SIGNIFICANT AND OTHER RISKS OF MATERIAL MISSTATEMENT

We reported our risk assessment, which brought to your attention areas that require additional or special audit consideration and are considered a significant audit risk, in the 2014/15 Audit Plan issued in March 2015. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and 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 issues

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 which can fully mitigate the risk of management override.	We reviewed the appropriateness of significant 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. We did not identify any significant or unusual transactions outside of the normal course of business.
REVENUE RECOGNITION	Auditing standards presume that there is a risk of fraud in relation to revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply to Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue.	We substantively tested a sample of income streams and debtor accruals to supporting documentation to confirm that income had been accurately recorded and earned in the year, and that the Council's accounting policies had been correctly applied. We substantively tested an extended sample of receipts either side of the year end to ensure that income was complete and accounted for in the correct period.	No issues have been identified from our testing of income streams and year end cut-off with regard to the recognition of revenue in the relevant financial year.

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SIGNIFICANT AUDIT RISK AREAS (CONTINUED)			
RISK	**RELATED CONTROLS / RESPONSE TO RISK**	**WORK PERFORMED**	**CONCLUSION**
ACCOUNTING FOR NON-CURRENT ASSETS	The Council introduced a new system for accounting for non-current assets (known as 'RAM'), which has been implemented over the past two financial years. Accounting for non-current assets is a particularly complex area within local government, and there is an elevated level of inherent risk associated with any change to systems and processes. In addition, our audit of non-current assets last year identified errors in accounting for the derecognition of components of council dwellings being replaced and in the removal of accumulated depreciation balances upon revaluation of Property, Plant and Equipment. There is a risk errors continue to be made in these areas.	We carried out focussed audit procedures on all year-end balances and movements relating to non-current assets. This included performing a full reconciliation of the fixed asset register from RAM to the draft non-current assets notes. We also reviewed the accounting adjustments processed for all revaluation movements.	**Prior year movements** In the prior year, the accounts were prepared before all of the historic data was uploaded onto the new system. As a result, a number of transactions relating to 2013/14 were posted through the 2014/15 draft financial statements. The effect of these transactions on the prior year accounts were as follows:- - Revaluation gains were understated by £5.365 million - Impairment reversals were overstated by £4.110 million - Derecognition of components was understated by £656,000. - Depreciation and amortisation was understated by £108,000. - Additions were overstated by £401,000 in respect of expenditure which should have been treated as Revenue Expenditure Funded from Capital Under Statute (REFCUS). The net impact was a decrease in the surplus on provision of services of £5.282 million, with an increase in other comprehensive income of £5.365 million. The net book value of non-current assets was understated by £92,000 (which consisted of £28,000 for property, plant and equipment and £64,000 for intangibles). The corresponding impact on reserves was that the revaluation reserve was understated by £5.374 million, and the capital adjustment account overstated by £5.282 million. This issue has been corrected in the revised financial statements by way of a prior period adjustment. This has also required amendments to a number of disclosure notes throughout the accounts.

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SIGNIFICANT AUDIT RISK AREAS (CONTINUED)	
ACCOUNTING FOR NON-CURRENT ASSETS (CONCLUSION CONTINUED)	**Classification of revaluation adjustments** The Council had incorrectly disclosed items between revaluation movements posted to the revaluation reserves, and those to the Comprehensive Income and Expenditure Statement, for both Council dwellings and other land and buildings. Our audit testing identified that this is the result of an incorrect report being extracted from RAM during the accounts preparation process. From the revised report from RAM we have recalculated the revaluation movements for a sample of properties and no further issues were identified. The overall impact of both of these issues on the 2014/15 transactions was as follows:- - Net revaluation gains to the revaluation reserve were understated by £1.761 million - Net revaluation gains to the Comprehensive Income and Expenditure Statement were overstated by £3.025 million - Derecognition of non-current assets was overstated by £656,000 - Depreciation and amortisation charged in year was overstated £107,000 - Other movements totalling a net decrease to assets in year of £409,000 were included in the first draft accounts, which have subsequently been moved to fall within the prior period All of the above (including the impact of the prior year misstatements) means that the net surplus on the provision of services was overstated by £1.853 million, and other comprehensive income was understated by £1.761 million. The impact on total comprehensive net expenditure is £92,000. The corresponding net impact on reserves as at 31 March 2015 is that the revaluation reserve was understated by £7.135 million, and the capital adjustment account was overstated by the same amount. **Disclosure of valuation movements** In the first draft accounts, many of the revaluation movements to the Comprehensive Income and Expenditure Statement were described as 'exceptional items'. Such items are not permitted by the Code. In the final Statement of Accounts, management has correctly allocated the movements across the relevant service and other income and expenditure lines. Management has agreed to correct all of the above misstatements in the final accounts, and this will also involve amendments to a number of disclosure notes throughout the accounts.

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SIGNIFICANT AUDIT RISK AREAS (CONTINUED)			
RISK	**RELATED CONTROLS / RESPONSE TO RISK**	**WORK PERFORMED**	**CONCLUSION**
RELATED PARTY TRANSACTIONS	For 2014/15 the Council put in place a process for the collection and review of annual declarations from Members and Senior officers in respect of outside interests, and controls were strengthened to ensure that disclosures are accurate. There is a risk that related party transactions were not identified and adequately disclosed while new processes were being established.	We carried out focussed substantive procedures on related party transactions, including detailed reviews of Council and Committee minutes and the Council's register of interests, inquiries of management, use of third-party data sources (such as Companies House and Charity Commission searches), and agreement of related party transactions disclosed by the Council back to supporting documentation. We also reviewed the arrangements established by the Council to ensure the completeness, accuracy and presentation of RPT disclosures by Members and compliance with the requirements of the Code. We inspected the signed declarations from members and senior officers, considered whether any of the relationships disclosed were related parties as per the Code definition and searched the general ledger for potential transactions.	We did not identify any undisclosed related party relationships, however we identified a total of £43,000 of receipts from Wave Leisure which were not disclosed in the draft note. This has been corrected in the revised financial statements. The payments to Wave Leisure were correctly included in the note. We note that signed declarations had not been received from 12 Members who were not re-elected in the May 2015 local elections – however we have gained assurance over the completeness of related party transactions through our own review of third-party data sources including Companies House searches.

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SIGNIFICANT ACCOUNTING ESTIMATES AND MANAGEMENT JUDGEMENTS		
ESTIMATE	**WORK PERFORMED**	**CONCLUSION**
DEFINED BENEFIT PENSION SCHEMES	The net pension liability comprises the Council's share of the market value of assets held in the East Sussex Pension Fund and the estimated future liability to pay pensions. 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. Management has agreed the assumptions made by the actuary to support the estimate and these are disclosed in the financial statements. We have reviewed the reasonableness of the assumptions applied by comparing these to the expected ranges provided by an independent consulting actuary report. We have also reviewed the independence and competence of third party experts engaged by management to value the Scheme liabilities. Finally, we reviewed the accuracy and completeness of disclosures in relation to the Council's defined benefit pension scheme, and the assumptions applied in valuing the liabilities.	As at 31 March 2015 net pension liabilities disclosed in the balance sheet increased by approximately £7.2 million. This comprised an increase in the liabilities of £16.7 million (to £116.4 million) and an increase in assets of £9.5 million (to £85.4 million). It should be noted that these retirement benefits (liabilities) will not actually be payable until employees retire but because the Council has a commitment to make the payments, there is a requirement to disclose the information in the accounts at the time employees earn their future entitlement. The last formal valuation of the Fund was carried out as at 31 March 2013. In order to assess the value of the Council's liabilities as at 31 March 2015 the actuary has rolled forward the value of the liabilities calculated at the latest formal valuation, allowing for up to date financial assumptions. The key changes to the financial assumptions relate to: • 0.3% reduction in the salary increase rate to 4.3% • 0.4% reduction in the pension increase rate to 2.4% • 1.1% reduction to the discount rate to 3.2% (to place a current value on the future liabilities through the use of a market yield of corporate bonds). We have compared the assumptions used by the actuary to calculate the present value of future pension liabilities with the expected ranges provided by the independent consulting actuary. We are satisfied that the assumptions used are reasonable and within the expected ranges. Based on the results of these procedures, we concluded that the estimates and judgments were reasonable and were determined using consistent processes in accordance with established policies.

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SIGNIFICANT ACCOUNTING ESTIMATES AND MANAGEMENT JUDGEMENTS (CONTINUED)		
ESTIMATE	**WORK PERFORMED**	**CONCLUSION**
VALUATION OF PROPERTY, PLANT AND EQUIPMENT, HERITAGE ASSETS, AND INVESTMENT PROPERTY	The Code requires Councils to carry out work each year to ensure that the carrying values of its property assets are fairly stated at year-end. The Council commissioned the District Valuer Services (DVS) to carry out a full valuation of its non-HRA property assets in year. This valuation was carried out with an effective date of 1 April 2014, and was supplemented with a further report from DVS confirming that no material valuation movements or impairments had been identified as at 31 March 2015. The valuations also include an assessment of the remaining useful economic lives of property assets, which is then used by the Council in calculating its depreciation charge. In addition, all Council dwellings have been subject to a desktop valuation exercise in year, with the last full revaluation having been carried out as at 1 April 2010. We have reviewed the reports provided by DVS, and for an extended sample of property assets tested whether revaluation movements have been correctly calculated and accounted for. We have also carried out specific procedures to gain assurance over the work of DVS, including an assessment of their competence and objectivity, a review of their key outputs, and a comparison of the valuations produced against market trends.	In total, the Council has recognised net revaluation gains on non-current assets of £18.6 million in the year. We were able to gain assurance that the valuations provided by DVS are materially correct, and broadly in line with our expectations. As set out on page 6 of this report, a number of issues were identified in respect of the way in which the Council had classified valuation movements between those charged to the Comprehensive Income and Expenditure Statement, and those taken to the revaluation reserve. Management has corrected these errors in the final Statement of Accounts.

FINANCIAL STATEMENTS
Key audit and accounting matters

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES		
ISSUE	**WORK PERFORMED AND FINDINGS**	**CONCLUSION**
TRADING OPERATIONS	We reviewed the Council's trading operations, to ensure that the related income, expenditure, assets and liabilities are correctly accounted for and classified within the accounts.	We identified an inconsistency in the way in which the Council has accounted for its industrial estates and Newhaven Business Centre. These assets are held within property, plant and equipment under long-term leases. They are not recognised as investment properties as they are held for economic development purposes rather than for their rental income or capital appreciation, in line with Code requirements. However, the income and expenditure relating to these assets, including movements in fair value, were being recognised within financing and investment income and expenditure, as it would be for investment properties, rather than through the net cost of services within the Comprehensive Income and Expenditure Statement. The impact of this error in the draft financial statements was as follows:- - Trading operation income of £1.053 million, and expenditure of £393,000, has been included within financing and investment income and expenditure, rather than Planning Services. - Upwards revaluation of £661,000 has been recognised within financing and investment income, rather than Planning Services. Management has corrected both of the above errors in the final Statement of Accounts.
MISCLASSIFICATION OF CREDITORS	We performed sample testing on creditors and grants received in advanced, and assessed the reasonableness of the classification of creditors within the notes to the accounts.	We identified four classification errors within the draft creditors notes: - A creditor balance of £301,000 was incorrectly classified as 'Other Entities and Individuals' but should have been 'Other Local Authorities' - Part of the PAYE creditor balance (£150,000) was incorrectly classified as 'Contractual', but should have been 'Non-Contractual' - A creditor balance of £514,000 relating to NDR payments was incorrectly classified as 'Contractual', but should have been 'Non-Contractual' - A grant creditor of £730,000 was coded to long-term grants received in advance, but should have been classified as short-term, as the grant is required to be spent within 12 months of the year-end Management has corrected all of the above errors in the final Statement of Accounts.

FINANCIAL STATEMENTS
Key audit and accounting matters

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES (CONTINUED)		
ISSUE	**WORK PERFORMED AND FINDINGS**	**CONCLUSION**
EXPENDITURE NOT ACCRUED IN THE PRIOR YEAR	We tested a sample of expenditure items to confirm the existence and accuracy of the amounts in the Comprehensive Income and Expenditure Statement.	We tested 49 invoices, and identified one error, as follows:- - One transaction for glass recycling from April 2013 to January 2014 was not accrued for in the prior year. Management have stated that the invoice was received very close to the accounts being signed, and therefore no adjustment was made on materiality grounds. The value of the transaction was £31,000. Since the error was identified through sample testing, we are required to consider the projected error within the untested population. Based upon the results of our testing, and extrapolating over all invoices posted in the 3 month account closedown period, we have estimated the total extrapolated error to be £159,000. We are therefore satisfied that expenditure is not materially misstated in year, and in any case prior year expenditure not previously accounted for would need to be recognised in year. It is not possible for management to correct an extrapolated error without significant additional work, therefore this has been recorded as an unadjusted misstatement in Appendix II.
MISCLASSIFICATION OF SECTION 31 GRANTS	We reviewed the calculation of NDR income recognised in year, and compared this to the information within the Collection Fund statement and notes, and supporting documentation.	We identified a total of £716,000 which has been included within NDR income, but relates to Section 31 grants. These grants should be classified under non-ring-fenced government grants within the Taxation and Non Specific Grant Income note. Management has corrected this error in the final Statement of Accounts.
NETTING OFF OF DEBTORS AND CREDITORS	We reviewed the debtors and creditors listings at year-end to identify any circumstances in which debtors and creditors are being incorrectly netted off.	We identified a total of £115,000 of debit balances included on the aged creditors report. These should be reclassified to debtors. Management has correctly adjusted for this within the final Statement of Accounts.

FINANCIAL STATEMENTS
Key audit and accounting matters

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES (CONTINUED)		
ISSUE	**WORK PERFORMED AND FINDINGS**	**CONCLUSION**
EVENTS AFTER THE BALANCE SHEET DATE	We reviewed Cabinet minutes and made inquiries of management to ascertain if there were any undisclosed events after the balance sheet date.	We identified the following event which had not been disclosed within the draft Statement of Accounts:- - In June 2015, the Council entered into a development agreement with a property developer to seek to develop 29 sites which are currently under-utilised. In addition, after the draft Statement of Accounts had been issued, on 8 July 2015, the government announced a number of proposals which will impact on housing authorities, including a change to the convergent rents formula that will be replaced with a formula that requires a 1% decrease in rents each year, for four years, commencing from 1 April 2016. Both of the above events are anticipated to have a material impact on the value of the Council's assets in future periods, and as such are classified as non-adjusting events. Management has included the appropriate disclosures within the final Statement of Accounts.
FINANCIAL INSTRUMENT DISCLOSURES	We agreed the draft financial instrument disclosures against the Council's working papers and other supporting documentation, to ensure that the disclosures were complete and accurate. We also completed a disclosure checklist to ensure that Code requirements had been complied with.	We identified a number of disclosure errors within the draft financial instruments notes, as follows:- - The value of debtors within the draft note was not shown net of impairments totalling £837,000. - No sensitivity analysis was provided within the 'Market Risk' section of the note, as required by the Code. - The fair value disclosures within the note omitted short-term debtors and creditors. - The maturity analysis of housing rent debtors in the draft note was based upon estimates, but has been updated in the final Statement of Accounts with actual debtor figures from the housing rents system. - The maturity analysis of financial liabilities within the note had not been fully updated from the prior year. Management has corrected all of the above errors in the final Statement of Accounts.

FINANCIAL STATEMENTS
Key audit and accounting matters

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES (CONTINUED)		
ISSUE	**WORK PERFORMED AND FINDINGS**	**CONCLUSION**
ACCOUNTS DISCLOSURES	We agreed the material disclosure notes within the draft Statement of Accounts against the Council's working papers and other supporting documentation, to ensure that the disclosures were complete and accurate. We also completed a disclosure checklist to ensure that Code requirements had been complied with.	The following disclosure issues were identified in the first draft financial statements, in addition to those described above: - The draft 'Transfers to/from Earmarked Reserves' note included a negative transfer in of £118,000 to the Revenue Equalisation and Asset Maintenance reserve – this should be shown within the transfers out column. - The 'Post Employment Benefits' note contained two incorrect figures in respect of mortality assumptions in the current and prior years. - Within the draft accounting policies note we identified a small number of areas for minor improvement, in order to comply with best practice. - Within the draft 'Capital Expenditure and Capital Financing' note, amounts financed through the major repairs reserve (£4.891 million) were erroneously included within the government grants and other contributions line. - Within the notes to the Housing Revenue Account, the vacant possession value of the Council's housing stock was overstated by £0.1 million. Management has corrected all of the above errors in the final Statement of Accounts.

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 2015.

CONTROL ENVIRONMENT
Significant deficiencies

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 and are set out in the table of significant deficiencies below.

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
NON-CURRENT ASSETS	The draft financial statements presented for audit did not reconcile to the fixed asset register ('RAM') by a material amount (in terms of the split between revaluation reserve and impairment adjustments). This is because the initial report from RAM did not show the split between the revaluation movements. We later identified that this was an error in the way the report was run from the system rather than a systematic error.	If the financial statements do not reconcile to the fixed asset register, there is a risk of material misstatement within the Statement of Accounts.	We recommend that management review the full reconciliation of the fixed asset register to the financial statements prior to presenting the accounts for audit. We recommend that management investigate whether there are any additional reports which could be run from the RAM system which would further assist with the production of the financial statements.
RELATED PARTY TRANSACTIONS	We found that signed annual related party declarations had not been received from 12 Members who were not re-elected in the May 2015 local elections.	Failure to receive annual declarations from all Members increases the risk of undisclosed related party transactions.	Whilst we appreciate the inherent difficulty in obtaining declarations from former Members, we recommend that management considers ways in which this could be addressed, for example by sending out requests for declarations earlier in the year, and putting into place procedures for chasing for declarations not returned.

We made the observations reported to you above during the course of our normal audit work. Management responses to our recommendations in respect of these significant deficiencies and other internal control improvements are included in appendix IV.

GOVERNANCE REPORTING

Governance matters and quality of reporting

FINANCIAL STATEMENTS PREPARATION	CONCLUSIONS AND AUDIT ISSUES
The draft Statement of Accounts was presented for audit on 30 June 2015. 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 has been provided to us on the first day of the audit.	Due to unforeseen circumstances at the Council, a number of audit working papers as specified within our records required listing were not available to us at the start of the audit. Although these were provided over the course of the audit, our audit work was delayed in some areas (such as completing the audit of non-current assets).

GOVERNANCE STATEMENT	CONCLUSIONS AND AUDIT ISSUES
We are required to review the draft 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 Council's review of effectiveness and our knowledge of the Council.	We are satisfied that the governance statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies in all material respects with "Delivering Good Governance in Local Government" (CIPFA / SOLACE). The CIPFA guidance contains an Addendum setting out the key elements of systems and processes that comprise an authority's governance arrangements. From our review of the draft Governance Statement, we identified the following areas where the Council had not included any description of its arrangements:- - How the Council ensures that its assurance arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010) or, if they do not, why and how they deliver the same impact. - How the Council ensures that effective arrangements are in place for the discharge of the head of paid service function. - How the Council ensures compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. Management has confirmed that it will address these issues in the final Governance Statement, and at the time of drafting this report we await a revised version.

STATEMENT OF ACCOUNTS	CONCLUSIONS AND AUDIT ISSUES
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, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.	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

BELOW THRESHOLD

Auditors are required to review Whole of Government Account (WGA) information prepared by component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure.

The Council falls below the threshold for review and there is no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure.

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). This is based on the following two reporting criteria:

- The organisation has proper arrangements in place for securing financial resilience (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 (prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity).

APPROACH

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

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

We also consider the findings from the following sources:

- value for money profiles tool and financial ratios analysis tool
- risk indicators
- key issues facing the sector

USE OF RESOURCES
Financial resilience

SIGNIFICANT AND OTHER RISKS OF MATERIAL MISSTATEMENT

We reported our risk assessment, which included use of resources risks, in the 2014/15 Audit Plan issued in March 2015. We have since undertaken a more detailed assessment of risk following completion of the interim review of financial controls, review of the draft financial statements and review of operational performance for the year, and we have not included any additional significant risks. We report below our findings of the work designed to address significant risks and any other relevant use of resources work undertaken.

Key: ■ Significant risk/issue ■ Other relevant use of resources work

RISK	WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
MEDIUM TERM FINANCIAL PLANNING	Our planning identified the risk that the Council may not fully identify or achieve the significant savings and efficiencies required in the medium term to respond to the expected further reduction in government funding and other emerging financial pressures. We reviewed the Council's Medium Term Financial Strategy to assess the reasonableness of the assumptions therein, and how the Council is addressing financial pressures. **Key Findings** The medium term financial strategy covers the period 2015/16 to 2019/20 and contains assumptions about the future funding of the Council, national and local economic performance indicators, the level of pay and non-pay inflation and a range of savings targets. Over the medium term, the Council expects the net budget requirement to reduce from £12.8 million to £12.2 million and that by 2019/20 its revenue support grant (which amounts to £1.7 million in 2015/16) will cease. The Council plans to balance its finances over the medium term by delivering savings of £2.7m which will sit alongside projected growth in income from business rates and council tax., The Cabinet reviews and approves the level of balances and reserves when setting the annual budget and after the closure of the accounts. As at 31 March 2015 the general fund balance amounted to £1.5 million which is above the minimum level recommended by the Chief Finance Officer (£1 million). Other earmarked general reserves of £10.3 million are available. The Chief Finance Officer reported the level of the general fund balance is sufficient In the light of the Council's future expenditure plans and risk profile. The level of capital reserves increased by £1 million in the year (to £6 million as at 31 March 2015).	There is no impact on the VFM conclusion from our financial resilience work.

USE OF RESOURCES
Financial resilience

AREA OF WORK	WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
FINANCIAL GOVERNANCE	The Council has established effective arrangements to ensure its financial resilience. The Council provides clear and consistent leadership on financial matters through the work of the Corporate Management Team to review performance towards the annual budget, and the regular reporting and review of financial matters by the Cabinet. The Audit and Standards Committee receives reports on the Council's financial plans and performance throughout the year, including Treasury Management. These corporate reporting arrangements were developed further in June 2015 to publish more detailed information about the financial performance of individual services and to complement this with non-financial data.	No areas of concern
FINANCIAL PLANNING	Arrangements to develop and approve the annual budget are comprehensive and are fully aligned to the medium term financial planning process. The financial planning process clearly defines those services Lewes must provide and others where provision is at the Council's discretion based on its priorities. The annual budget for 2015/16 is balanced and includes a recurring savings target of £611,000 which it expects to exceed by a small margin. The Council is also considering new ways of generating income, such as introducing a paid-for service to for removing green waste, and reviews the level of fees and charges as part of the annual budget setting process. The Council understands the risks involved across its financial planning assumptions and that these will continue to require careful management. Where services are provided in partnership, such as through Wave Leisure Limited (a Leisure Trust established locally in 2016), the Council keeps the cost and performance of the partnership under review. The Leisure Services contract was renegotiated in the year, with reductions in the annual service fee and additional services agreed under the revised service agreement. On 8 July 2015 the Government announced a number of proposals that will impact on housing authorities including a change to the convergent rents formula that requires a 1% decrease in rents each year, for four years, commencing from 1 April 2016. The Council has considered the impact of the proposal on Housing Revenue Account (HRA) business plan and estimates that resources available to invest in its housing stock will be reduced by £7 million. The Council is continuing with its plans to build new social housing on a number of former garage sites (30 units) and in Newhaven (100 units). It also expects the corporate efficiency programme to reduce certain HRA costs.	No areas of concern

USE OF RESOURCES
Financial resilience

AREA OF WORK	WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
FINANCIAL CONTROL	The savings target for the 2014/15 year (£596,000) was surpassed. The Council reported a £75,000 reduction in the cost of General Fund services in 2014/2015 when compared with the budget for the year, further strengthening the overall financial position. The Housing Revenue Account reported a deficit of £90,000 compared with the planned surplus of £281,000. The deficit was funded from the Housing Revenue Account balance which amounted to £2.6 million as at 31 March 2015. The variance arose because expenditure on repairs and maintenance was £1 million more than the original budget, though this largely offset by reduced contributions to capital expenditure and service management costs. The Council Tax Collection Fund generated a surplus of £975,000 in 2014/15 and exceeded the budgeted surplus of £403,000. The variance amounted to less than one per cent of total council tax income (£59 million). The amount of income retained from business rates (£2.4 million for Lewes) was in line with the budgeted amount. The 2014/15 capital programme budget amounted to £16.6 million with £9.9 million of expenditure actually incurred. Expenditure on some significant projects was re-profiled into future years including the Newhaven Growth Quarter Project (£2.2 million); a planned contribution to the University Technical College (£1.6 million) and the Agile Working Project (£1.1 million). Members received regular reports on the achievement of the capital programme throughout the year and approved the carry forward of resources in setting the 2015/16 budget and medium term financial strategy.	No areas of concern

USE OF RESOURCES
Challenging economy, efficiency and effectiveness

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

RISK	WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
PRIORITISING RESOURCES	The Council has maintained a strong focus on achieving its plans for securing better value for money from its services and the reductions in budgets anticipated over the next three years. A Council-wide review of efficiency (known as the 'Nexus' Transformation Programme) commenced in 2014, and is on track to secure reductions in the annual net revenue budget of £2.6 million by 2018/19. Investment of £2.2 million is being made in new technology and business change management which will introduce, for example, a single point of contact for people seeking to access Council services – the investment is expected to secure savings of £1.2 million per annum by 2018. At the same time, the Council is working towards a Change Management Programme designed to secure savings through the more efficient use and rationalisation of Council assets, investment in ICT, extending the scope of shared services and improved partnership working. Progress and other outcomes to date include: • restructuring the Council to streamline its senior management and reduce its establishment (reducing costs by £225,000 per annum) • investment in new systems designed to improve the efficiency of customer handling • identifying strategic sites across the District for investment and development (such as the Lewes Town North Street and the Newhaven Port sites) • obtaining approval from the Government for additional borrowing of £2.3 million to finance the construction of 30 new dwellings on former garage sites. The project has been included in the Housing Revenue Account capital programme for 2015/16 and amounts to £3.8 million. The Council plans to resource the residual amount of £1.5 million from its capital receipts • identifying surplus assets for disposal and the development of land held for the purposes of the Housing Revenue Account • sharing back office services and senior management posts with other Councils (reducing costs by £150,000 per annum) • at the more detailed level, increasing investment in contracts with the voluntary sector to support achievement of Council priorities. Effective governance arrangements have been established to oversee delivery of the Nexus programme. The programme board is chaired by the Leader of the Council and other minority political groups are represented, providing sufficient challenge as the programme develops and decisions are made. The Corporate Management Team and other senior officers provide the Board with the capacity necessary to implement the programme and the local Trade Union is also represented, ensuring consistent communication of developments and progress among staff.	No areas of concern

USE OF RESOURCES

Challenging economy, efficiency and effectiveness

RISK	WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
IMPROVING EFFICIENCY AND PRODUCTIVITY	The Council completed a number of significant procurements and negotiation of existing contracts in the year. Such decisions are informed through the Council's work with a major consultancy company to provide the range of benchmarking and other data needed to support effective decision making. Examples include: • reducing the total cost of the Grounds Maintenance contract from £6.8 million to £6.5 million (over an eight year period) through a competitive tendering process • reducing the service fee for the Leisure services contract by £2.3 million over the period 2014/15 to 2024/25 while extending the scope of services provided • sharing printing, legal and human resource services with another Council. A review of the waste and recycling service was completed and, based on comprehensive analysis of data and benchmarking provided by independent consultants, Members decided to continue to provide the service in-house, investing an additional £2.2 million in new plant and vehicles in the expectation savings of £400,000 per annum can be secured. The Council continues to operate an effective performance management system, with the regular reporting of progress towards targets to the Cabinet and the Scrutiny Committee. The 2014/15 annual report sets out performance against targets and the progress of major projects for the year. The Scrutiny Committee informs the policy making process and has oversight of the performance of the Council. The Council therefore has in place arrangements to ensure the effective challenge of its performance and priorities. In 2014/15 Lewes reported: • 89.5% of the Council's key projects were either complete or on track • 77% of the Council's performance targets were either met, exceeded or within a 5% variance. Only four indicators did not meet the planned target (Households in Bed and Breakfast/emergency accommodation; Removal of Fly-tips; Recycling Levels; and Sickness Absence). Action is underway to improve performance in these specific areas.	No areas of concern

USE OF RESOURCES
Challenging economy, efficiency and effectiveness

RISK	WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
IMPROVING EFFICIENCY AND PRODUCTIVITY	The Council seeks the views of all staff on a range of matters through the annual staff survey. It also provides regular updates to staff through the Council Intranet and other specific publications on the development and implementation of the transformation programme. In 2014, staff views were sought on the clarity of the Council's vision, the pace of change, staff views about the Council, the annual appraisal process and whether staff felt they were treated with fairness and respect. . Feedback was positive in many areas with 63% of staff agreeing the Council's management provided a clear vision and over 50% agreeing the reasons for the Council's change programme were clearly communicated. Staff also felt better informed about the Council and its priorities, noted improvements in the appraisal process and the frequency of staff meetings. Management is now working to address the variability in the results among certain departments	No areas of concern

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 2015. We anticipate issuing an unqualified value for money conclusion.

APPENDICES

APPENDIX I: DEFINITIONS

TERM	MEANING
The Council	Lewes District Council
Management	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: • 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	The persons 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. Those charged with governance for the Council are the Audit and Standards Committee.
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 (Chartered Institute of Public Finance and Accountancy / Local Authority Scotland Accounts Advisory Committee)
SeRCOP	Service Reporting Code of Practice for Local Authorities issued by CIPFA / LASAAC
SOLACE	Society of Local Authority Chief Executives
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.

ADJUSTED MISSTATEMENTS

Management has made a number of corrections to the draft Statement of Accounts, as set out in the 'Financial Statements' section of this report. The net effect of these was to reduce the surplus on the provision of services by £1.853 million, and increase other comprehensive income by £1.761 million. The remaining balance of £92,000 relates to prior period adjustments (see below). In addition, a total of £7.135 million has been moved from the capital adjustment account to the revaluation reserve in respect of current and prior year adjusted errors. However, there is no impact on the closing general fund balance.

Prior period restatements have also been made to the non-current assets note and associated movements, as set out in the 'Financial Statements' section of this report. The net effect of this was to increase the brought forward revaluation reserve by £5.374 million, decrease the brought forward capital adjustment account by £5.282 million, and increase brought forward non-current assets by £92,000.

There was no impact on usable reserve balances.

UNADJUSTED AUDIT DIFFERENCES

There is one unadjusted audit difference identified by our audit work which would increase the draft surplus on the provision of services in the CIES by £159,000 to £2.852 million (from £2.693 million).

A schedule of uncorrected audit differences is included on the following pages, with misstatements recorded as factual, estimation, or projected misstatements. The only remaining unadjusted difference is an extrapolated error relating to the prior year. Since the error is not material, prior year figures cannot be restated, therefore this error cannot be corrected by management.

Management has stated that it considers these identified misstatements to be immaterial in the context of the financial statements taken as a whole.

There are no misstatements brought forward from the prior year.

APPENDIX II: AUDIT DIFFERENCES

Unadjusted audit differences

UNADJUSTED AUDIT DIFFERENCES	£'000	INCOME AND EXPENDITURE Dr £'000	INCOME AND EXPENDITURE (Cr) £'000	BALANCE SHEET Dr £'000	BALANCE SHEET (Cr) £'000
CIES (surplus) on the provision of services after corrected adjustments above	**(2,693)**				
Dr General fund b/f	**(159)**			159	
Cr Expenditure			(159)		
Being the extrapolated impact of one cut-off error identified within our expenditure testing (projected misstatement).					
TOTAL UNADJUSTED AUDIT DIFFERENCES (EXTRAPOLATED)	**(159)**	0	(717)	717	(0)
CIES (surplus) on the provision of services if the accounts are adjusted for the above issues	**(2,852)**				

IMPACT ON GENERAL FUND	GENERAL FUND BALANCE £'000
General fund balance after corrected adjustments above	**1,552**
Adjustments to CIES above	**159**
Adjustments to general fund opening balance	**(159)**
Balances after adjustments (extrapolated)	**1,552**

UNADJUSTED DISCLOSURE MATTERS
There are no unadjusted disclosure matters.

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	£1,100,000
Final materiality	£1,419,000
Clearly trivial threshold	**£28,000**

Planning materiality of £1,100,000 was based on 2% of gross expenditure, using forecast outturn. We revised our final materiality based on 2% of gross expenditure using the draft Statement of Accounts.

APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
CONTROL ENVIRONMENT				
Non-current assets The draft financial statements presented for audit did not reconcile to the fixed asset register by a material amount (in terms of the split between revaluation reserve and impairment adjustments). This is because the initial report from RAM did not show the split between the revaluation movements. We later identified that this was an error in the way the report was run from the system rather than a systematic error.	We recommend that management review the full reconciliation of the fixed asset register to the financial statements prior to presenting the accounts for audit. We recommend that management investigate whether there are any additional reports which could be run from the RAM system which would further assist with the production of the financial statements.			
Related party transactions We found that signed annual related party declarations had not been received from 12 Members who were not re-elected in the May 2015 local elections.	Whilst we appreciate the inherent difficulty in obtaining declarations from former Members, we recommend that management considers ways in which this could be addressed, for example by sending out requests for declarations earlier in the year, and putting into place procedures for chasing for declarations not returned.			

APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
GOVERNANCE STATEMENT				
Governance Statement We identified a few areas in which the Council did not include any description of its governance arrangements within the draft Governance Statement as follows:- - How the Council ensures that its assurance arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010) or, if they do not, why and how they deliver the same impact. - How the Council ensures that effective arrangements are in place for the discharge of the head of paid service function. - How the Council ensures compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.	We note that management has agreed to amend the Governance Statement in respect of these issues, and at the time of drafting this report we await a copy of the amended Statement. We recommend that management considers including these areas in future Governance Statements, as suggested by CIPFA's good practice guidance.			

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)	**Financial statements section of this report**		
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)	**Not applicable**		
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 TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP
55 Baker Street
London
W1U 7EU

28 September 2015

Dear Sirs

Financial statements of Lewes District Council for the year ended 31 March 2015

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 2015 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 Corporate Services 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 2015 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.

Apart from those disclosed at Note 7 to the Statement of Accounts, 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 considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving councillors, management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by councillors, employees, former employees, analysts, regulators or any other party.

We attach a schedule showing accounting adjustments that you have proposed, which we acknowledge that you request we correct, together with the reasons why we have not recorded these proposed adjustments in the financial statements. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements.

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.

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

(a) 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 our knowledge of the business. These assumptions include:

- Rate of increase in salaries 4.3%
- Rate of increase in pensions / RPI 2.4%
- Rate for discounting scheme liabilities 3.2%

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

(b) 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.

We confirm that the indices applied to council dwellings, as provided by the valuer (5.85% increase for 2014/15), are reasonable and consistent with our knowledge of the business and current market prices.

(c) Carrying value of land and buildings

We are satisfied that the carrying value of other land and buildings is materially consistent with the fair value at 31 March 2014. We confirm that no further adjustments are required to those assets that were last revalued in April 2014.

(d) Non-domestic rate appeals provision

We are satisfied that the provision recognised for non-domestic rates appeals is materially correct, and the calculation of historical appeals are consistent with those advised to me by the Valuation Office Agency. We confirm that the success rates applied to outstanding appeals as at 31 March 2015 is consistent with our knowledge of the business.

(e) 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.

We have disclosed all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed in accordance with the requirements of accounting standards.

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.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and 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. Each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Alan Osborne

Director of Corporate Services

[date]

Councillor Mike Chartier

Signed on behalf of the Audit and Standards Committee

[date]