

LEWES DISTRICT COUNCIL

DRAFT REPORT TO THE AUDIT AND STANDARDS COMMITTEE
Audit for the year ended 31 March 2013

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OVERVIEW

The purpose of this report is to communicate to you the significant findings from our audit of the financial statements of Lewes District Council for the year ended 31 March 2013.

This summary covers those matters we believe to be material in the context of our work. However, you should read the entirety of this report, as there may be other matters raised that you consider important.

We have substantially completed our audit work in respect of the Statement of Accounts for the year ended 31 March 2013 and anticipate issuing an unqualified opinion subject to the outstanding matters listed on page 2.

AREA OF AUDIT	SUMMARY
Financial statements	<p>One material misstatement was identified as a result of our audit work, this being in respect of the £5.288 million impairment of HRA assets. We have reviewed the associated entries with officers and appropriate amendments have been made to the financial statements.</p> <p>Some areas of work are still outstanding at the time of drafting this report (see page 2). Should these result in any significant issues, we will give a verbal update to the Audit and Standards Committee.</p> <p>Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified true and fair opinion on the financial statements for the year ending 31 March 2013.</p>
Unadjusted audit differences	<p>There are no unadjusted audit differences that have been identified by our audit work.</p>
Internal controls	<p>Auditors are required to report deficiencies in internal control which meet the criteria to be called significant under auditing standards. The following issue has been noted which meets these criteria:</p> <ul style="list-style-type: none"> • Authorisation process in respect of purchase orders and requisitions <p>Some areas where improvements could be made have been identified, which we have orally discussed with management.</p>
Annual Governance Statement	<p>We were 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)</p>
Whole of Government Accounts (WGA)	<p>We have yet to complete our work to ensure that the WGAs return is consistent with the financial statements. We will update the Audit and Standards Committee at the meeting.</p>
Use of resources	<p>We report the following key observations following our audit:</p> <ul style="list-style-type: none"> • significant resource gaps have been identified by the Council over the 2014/15 to 2017/18 period (£2.68 million), resulting in further pressure being placed on general and earmarked reserves • ensuring financial balance over the medium term will continue to require strong action by the Council.
Value for Money Conclusion	<p>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 2013. We propose issuing an unqualified value for money conclusion.</p>

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 for the period ended 31 March 2013, and anticipate issuing an unqualified opinion on the financial statements. 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 meeting on 23 September 2013.

- external confirmation letter on some of the Council's bank accounts and investments held
- limited review of the WGA return pending clearance of outstanding PPE issues
- subsequent events review
- management representation letter, as attached to be approved and signed
- clearance of review points

TIMETABLE TO COMPLETE

The anticipated timetable to complete is as follows:

ACTIVITY	DATE
Audit and Standards committee meeting	23 September 2013
Signing of financial statements	By 30 September 2013
Completion of work on the WGA return and circulation of audit findings	By 30 September 2013
Signing of WGA audit certificate	By 4 October 2013

INDEPENDENCE

INDEPENDENCE

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. This document considers such matters in the context of our audit for the period ended 31 March 2013.

A summary of fees for audit and non-audit services for the period from 1 April 2012 to date is set out below.

We confirm that we are not aware of any relationships that may bear on our independence and objectivity as auditors and that our independence declaration, included in the Audit Plan for 2012/13, has remained valid throughout the period of the audit.

	£
Code Audit fee	60,990
Grants Certification Fees	13,290
Fees for Non-Audit Services	-
TOTAL FEES	£74,280

AUDIT SCOPE AND OBJECTIVES

Our audit scope is determined by the Audit Commission's Code of Audit Practice for Local Government and covers an audit in accordance with International Standards on Auditing (UK and Ireland) of the statutory financial statements. We form an opinion on whether:

1 The financial statements give a true and fair view of the state of the Council's affairs as at 31 March 2013 and of the income and expenditure for the year then ended

2 The financial statements have been properly prepared 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 "Delivering Good Governance in Local Government" (CIPFA / SOLACE)

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

- securing financial resilience
- challenging how it secures economy, efficiency and effectiveness

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

FINANCIAL STATEMENTS - KEY AUDIT AND ACCOUNTING MATTERS

To provide an opinion on whether your financial statements give a true and fair view of your financial position and income and expenditure and whether they have been prepared properly, in accordance with accounting policies directed by the Secretary of State, we carry out risk based procedures designed to obtain sufficient appropriate audit evidence to determine with reasonable confidence whether the financial statements are free from material misstatement and evaluate the overall presentation.

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, Appendix III gives an indication of the quantitative levels used for planning purposes. Materiality is re-assessed every year in the context of authoritative audit practice.

We are required to report to you all uncorrected misstatements that relate to the current financial year (including those arising in previous periods that have an effect on the current year financial statements) and the effect that they have individually, or in aggregate, on the opinion in the auditor's report, except for those that are clearly trivial. For reporting purposes, we consider misstatements of less than £25,000 to be trivial and have not reported them, unless the misstatement is indicative of fraud.

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

AUDIT RISK AREAS			
RISK	RELATED CONTROLS	WORK PERFORMED	CONCLUSION
SIGNIFICANT RISK 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. There are no controls in place to mitigate the risk of management override due to the nature of the risk.	We have reviewed the control processes in place over the authorisation of journals and confirmed, through a review of journals throughout the year that they have been made appropriately.	We are satisfied that there appear to have not been any inappropriate use of the management override in the preparation of the financial statements.
SIGNIFICANT RISK 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

Accounting Practices and Financial Reporting Framework

Financial Statement Preparation process

The requirement for Members to approve the draft financial statements by 30 June was removed by the Accounts and Audit Regulations 2011, however these regulations introduced the requirement for the Responsible Financial Officer to sign and present the financial statements for audit by 30 June. The financial statements were signed and presented for audit on 27 June 2013.

As part of our planning for the audit, we prepared a detailed document request which outlined the information that we would require to complete the audit. The Council provided us with comprehensive working papers on 8 July 2013, in line with the agreed timetable.

Audit issues and impact on opinion

We have no matters to report.

Accounting Policies

The following changes have been introduced by the 2012/13 Code of Practice on Local Authority Accounting in the United Kingdom (the 'Code'), resulting in changes in accounting practice:

- in relation to the objective of the financial statements and the qualitative characteristics of financial information as a result of the publication of the first phase of the International Accounting Standards Board's (IASB's) The Conceptual Framework for Financial Reporting 2010 (the Conceptual Framework)
- encouraging local authorities to prepare the Explanatory Foreword taking into consideration the requirements of the Government's Financial Reporting Manual (FRM)
- including amendments in relation to IFRS 7 Financial Instruments: Disclosures (transfers of financial assets).

Audit issues and impact on opinion

We have no matters to report.

Accounting estimates

We review material accounting estimates identified as having high estimation uncertainty or which are subject to a significant degree of judgement by management, and assess the reasonableness of the assumptions applied by management when deciding whether to recognise amounts in the accounts or the value at which these are recognised.

Audit issues and impact on opinion

We set out below the areas of material estimation that we have reviewed

Valuation of fixed assets

Land and buildings are required to be carried at fair value which is either existing use value, depreciated replacement cost for specialised properties or open market value. The Council revalues land and buildings where material changes in the value have occurred in

the year or as a minimum every five years as part of a rolling programme. The Council does not adjust for price indices between formal valuations, which the Code accepts as accepted practice.

Valuation reports for land and buildings and useful economic lives are prepared by an independent valuer with specialist knowledge and experience valuing local authority estates, having regard to local prices and the public sector. Management accepts the valuation information provided by the expert and valuation adjustments are made to the financial statements where required.

We are satisfied the valuer is suitably independent of the Council, objective and experienced in undertaking this work. Our review of the valuations provided, when compared to other price index information available, and useful economic lives allocated to buildings and significant components showed that they are not unreasonable.

Depreciation

Those assets which are considered to have a finite life in use, such as items of plant and equipment and the structure of buildings, are required to be depreciated in value over the period of use. This charge, or depreciation, is intended to recognise the loss in value of the asset through its use in the delivery of the Council's services. The period over which the assets is depreciated is dependent on the assessed life of the asset, and the period of time at the end of which when it will cease to have any further value to the Council. Changes in the useful lives of assets can have a significant effect on the level of depreciation incurred by individual services in any one year.

We have reviewed the methodology applied by the Council in assessing the economic life of its assets and the associated depreciation charges and we are satisfied it is reasonable.

Estimated pension liability

The net pension liability of the Council comprises its share of the market value of assets held in the East Sussex Pension Fund and the estimated future liability to pay pensions for its current, deferred and retired members of the pension scheme.

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 and these are included in the financial statements.

We are satisfied that the actuary is suitably independent of the Council, objective and experienced in undertaking this work. Our review of the assumptions applied in estimating the pension liability suggest that these are not significantly different from those being applied by the actuaries of other local authorities.

Recoverability of debtor balances

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

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

Pension Cost Allocation

In order to reflect the pension costs associated with its staff across the financial statements (the General Fund and HRA) the Council uses an allocation methodology to apportion them appropriately. The methodology is used to apportion the pension interest cost and expected return on pension assets. This being based on an analysis of the payroll costs attributable to the General Fund and HRA as a proportion of the total payroll costs analysed after the year end.

We have reviewed the methodology applied by the Council and we are satisfied it is reasonable.

Disclosures

We review material accounting disclosures, to confirm that they are in compliance with the requirements of the Code.

Audit issues and impact on opinion

We have identified some amendments to the disclosure to ensure these are in line with the expected disclosures set out in the Code. These have been discussed and agreed with officers. The principal amendments were:

- to the disclosure of trading operations within note 11 to the financial statements, as per the Code requirements (it had been in note 10)*
- to the removal of incorrect entries within the PPE note for increases in the value of the joint leisure centres*
- to the disclosures in respect of the HRA, in particular the value of HRA assets (HRA note 2) and the funding of capital expenditure (HRA note 5)*

Misstatements

We identified a number of departures from the expected presentation of the financial statements, or where notes and other disclosures had not been presented in accordance with the Code and requested management correct these in order to achieve compliance.

Audit issues and impact on opinion

The following misstatements identified by the audit have been amended by management:

Property Plant and Equipment

Council housing stock additions/ impairments

In the financial statements presented for audit an impairment loss of £5.288 million was written off the value of council dwellings. On enquiry it transpired that this represented a write down of the £6 million of additions to council dwellings reflecting officers' view that the additions did not add to the value of housing stock. The additions, and associated justification for impairment were:

- new bathrooms, kitchens, re-wiring and other building works - which did not add to value or life of the building components*
- disabled facility works on council dwellings - which were specific to individual tenants and did not add to the value or life of the building components*
- The Crest property addition - the cost to date of which at 31 March 2013 was impaired to the equivalent social housing value through the application of the government set discount factor.*

Our view is the code requires capital additions to be capitalised at full value.

However, it also requires that the estimated value of components being replaced (such as kitchens), should be written out of the accounts if they are material in aggregate (as a loss on disposal or de-recognition). Other valuation adjustments should only be made on receipt of an appropriate valuation from the appointed valuer.

It has been agreed with officers that the estimated value of bathrooms, kitchens, re-wiring, disabled facility and other building works being replaced (£3.905 million) should be written out as a loss on de-recognition in place of the impairment charge.

In respect of The Crest the Council has confirmed that, at year end, works were continuing to ensure the building could be brought into use for social housing and further expenditure was incurred in 2013/14. As a result the property was incomplete at year end and therefore its cost to date at 31 March 2013 should be included at cost as construction in progress within the financial statements.

The council has processed the changes to the accounts arising from the above, with changes made to the following primary statements and disclosure notes:

- Movement in Reserves Statement*
- Comprehensive Income and Expenditure Statement*
- Balance sheet*
- Note 8 - adjustments between accounting basis and funding basis under regulations*
- Note 13 - Property, Plant and Equipment*
- Note 24 Unusable reserves - Capital Adjustment Account (CAA)*
- Note 25 - Cash flow statement adjustments to net surplus*
- Note 29 - Amounts reported for resource allocation decisions*
- Housing Revenue Account - Income and Expenditure Statement*

- HRA - Movement on the HRA statement
- HRA - supporting notes 2 and 4

Leisure Centres

Our review of the council PPE has identified an error in the recording of the value of the Lewes and Meridian Leisure Centres, such that the asset value has been overstated in the year. These leisure centres are owned and operated jointly with East Sussex County Council, and as such the accounts should only reflect the proportion that relates to Lewes District Council.

At the start of the year the Council incorrectly increased the value of the leisure centres to the full value identified by the District valuer, rather than the proportion of the value that had been identified. This increase in valuation at the start of the year has been removed from the financial statements.

As a direct result of the incorrect values being included in the fixed asset register, the Council has calculated the level of depreciation charge for the year based on the incorrect value. This gave rise to the depreciation charge for the year being £69,000 in excess of the amount that should have been charged had the useful lives been applied to the correct values. This has also been removed from the accpounts.

Other PPE amendments

- *revision of the cost of capital commitments in future years*
- *some revisions to the wording of note 13 (PPE)*

Uncorrected misstatements

We are required to report to you uncorrected misstatements that relate to the current financial year (including those arising in previous periods that have an effect on the current year financial statements) and the effect that they have individually, or in aggregate, on the auditors' report, except for those that are clearly trivial.

Audit issues and impact on opinion

There are no unadjusted errors identified from our work.

FINANCIAL STATEMENTS - KEY AUDIT AND ACCOUNTING MATTERS

Matters required to be reported by other auditing standards

Whole of Government Accounts

Audit issues and impact on opinion

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 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.

Outstanding matter (see audit status in 'Overview' section above).

As a result of difficulties with the WGA documentation provided by the Department of Communities and Local Government, the Department extended the submission deadline to 14th August, but still require the audited return to be submitted by 4th October.

Annual Governance Statement

Audit issues and impact on opinion

We have reviewed the draft Annual Governance Statement and are satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council's review of effectiveness and our knowledge of the Council.

We have reviewed the initial draft of the Annual Governance Statement and have no matters to report.

CONTROL ENVIRONMENT

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 group's/council's 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.

SIGNIFICANT DEFICIENCIES

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE
SIGNIFICANT DEFICIENCY Purchase ordering	Testing of controls in relation to the purchase system has again 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.	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.	A review of authorisation limits and responsibilities for purchasing will take place in 2013/14 in the light of the Council's agile working initiative and corporate restructuring, which both have a bearing on the approach to purchasing. Work will continue on rolling out electronic purchase ordering where it is appropriate to do so. Relevant officers will be reminded of their roles and responsibilities.

We made the observations reported to you above during the course of our normal audit work.

USE OF RESOURCES - KEY AUDIT MATTERS

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).

In accordance with our Audit Plan, 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 organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

The focus of the criteria for 2012/13 is:

- 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
- undertaking other local risk-based work, as appropriate.

Financial resilience

Our financial resilience risk assessment considered the Council's arrangements for financial governance, financial planning and financial control. Our detailed work also considered the Council's arrangements for managing financial risks and opportunities and securing future financial stability.

Our risk based planning identified that the Council continues to need to identify or achieve the significant savings and efficiencies in the medium term to respond to the reduction in government funding and other financial pressures.

Key Findings

During 2012/13 the Council's financial governance arrangements have continued to enable strong leadership from the top of the organisation on financial matters through the work of the Cabinet and the Corporate Management Team. There has also been continued robust 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 understood within the organisation.

The Council's arrangements for ensuring financial control remain effective. The financial statements record the Council achieved a surplus of £1.387 million against its budgets for the year. As a result the Council made a net contribution of £0.771 into its earmarked general fund reserves and was able to increase its general fund balance by the substantial amount of £0.616m. At 31 March 2013 the Council had a general fund balance of £2.679

Audit issues and impact on opinion

Resource gaps have been identified in the period to 2017/18 (£2.68 million, and as a result further pressure is being placed on the Council's general and earmarked reserves. Ensuring financial balance over the medium term planning horizon will continue to require strong action by the Council.

million, an HRA balance of £3.467m and earmarked reserves of £10.052 million.

The process of financial planning is embedded across the Council through the annual budget setting process, and is supported by the medium term financial strategy (MTFS) which covers a three year period and is updated annually. The Council's revenue budget for 2013/14 requires additional savings of £757,000 and a contribution from the general fund balance of £484,000 due to further reductions in the Council's grant settlement and spending pressures.

The Council is expecting to have to make further savings of £1.92 million over the four years from 2014/15 to 2017/18, although continued changes to funding levels and the impact of appeals on the Business Rates Retention Scheme mean that these figures may vary.

Programme Nexus continues to be seen as the key delivery vehicle for the Administration's priorities and policy aspirations in this period, whilst ensuring resources are considered appropriately. The report presented to Cabinet in June 2013 outlines the forthcoming aspects of this strategic framework for driving change at the Council. It sets out the next steps to be taken in the short to medium term over the period up to April 2015.

Challenging economy, efficiency and effectiveness

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

Key Findings

In prior years our use of resources work has identified that they that the Council has made effective use of CIPFA value for money cost / income benchmarking review, to identify service areas that had potential to yield additional income or reduce costs when compared to the nearest neighbour group. The output from this led to the council completing a range of service reviews, which have helped to ensure that there is a greater emphasis on benchmarking, demonstrating how costs in areas of above average spend and support service costs can be reduced, and has heavily influenced the Council's service planning and budget setting processes.

While reports on three areas have been taken to the Scrutiny Committee in 2013, the overall process has been developed further by the implementation of the ongoing Programme Nexus project. This is an integrated programme of substantial and complementary projects that are seeking to reshape both the Council services and how they are provided.

The report on the next steps for Programme Nexus, as taken to Cabinet in June 2013, has outlined the key development for the Council in terms of its service arrangements and provision, this being the implementation of a new organisational structure. A key driver behind this development is the need to ensure the council is appropriately staffed, resourced and skilled to provide effective service to the residents of Lewes. In part this has

Audit issues and impact on opinion

We have no matters to report

started to occur from previous work to reduce overhead costs, through better the use of technology and smarter use of office accommodation by flexible working, all of which continue to be actively pursued. The report builds on the opportunities provided by these and sets out the 15 month timetable towards delivery. In light of the timeframe, ongoing monitoring and review of performance will be key to the continued delivery of efficiencies from programme nexus.

Value for Money Profile Tool

As part of our review we have considered the Council's performance against the most recently issued Audit Commission Value for Money Profile Tool, noting areas of both stronger and poorer performance. We have discussed a number of indicators with officers and have received appropriate commentary on the Council's relative performance levels. We are aware that the Council has also made use of some of the information within the tool as part of its reporting on benchmarking performance of its waste service, as reported to the Scrutiny committee.

Performance towards corporate priorities

The Council reported positive performance in many areas in 2012/13 with the majority of Council Plan key aims and targets either being met or on the way to delivery. There are some areas where the council has identified that improvement should be made:

- processing benefit claims
- reducing the time spent by homeless families in B&B accommodation
- managing processing of major and minor planning applications with target times
- completion of the annual staff survey

BDO CONCLUSION

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

We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013. We propose 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 entity 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.
‘Those charged with governance’	The person(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. At Lewes District Council this is 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 2012/13
CIES	Comprehensive Income and Expenditure Statement
SeRCoP	Service Reporting Code of Practice for Local Authorities 2012/13
WGA	Whole of Government Accounts

APPENDIX II: UNADJUSTED AUDIT DIFFERENCES

We are required to bring to your attention unadjusted audit differences that the Audit, Best Value and Community Services Scrutiny Committee and the Governance Committee are required to consider. A schedule of such adjustments is included below and we request that you correct them. Deliberate misstatement of known issues is not acceptable and identified misstatements should, where practicable, be corrected even if not material.

			CURRENT YEAR		PRIOR YEAR		NET ASSETS OR RESERVES (OVER) / UNDER
	(SURPLUS) / DEFICIT CIES	(SURPLUS) / DEFICIT G Fund	INCOME OVER/(UNDER)	EXPENSES (OVER)/UNDER	INCOME OVER/(UNDER)	EXPENSES (OVER)/UNDER	
UNADJUSTED AUDIT DIFFERENCES	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Deficit for the year before adjustment							
Impact of prior year misstatements							
No prior year misstatements impact on the current year							
Current year misstatements							
None							

UNADJUSTED DISCLOSURE MATTERS

The following unadjusted disclosure matters were noted:

- The code requires that when assets are revalued accumulated depreciation is eliminated against the gross carrying value of the asset as part of the revaluation restatement. This is not currently how the revaluation is treated in note 13 (PPE) and at the next revaluation accumulated depreciation should be netted off against the gross valuation. This has no effect on the net book value of PPE or any figures outside of note 13.

APPENDIX III: MATERIALITY

MATERIALITY	Asset based	Revenue based
Planning materiality	Not set	£633,000
Final materiality	£4,000,000	£847,000
Clearly trivial threshold	£120,000	£25,000

Planning materiality of £847,000 for the Council was based on 1% of gross expenditure on the basis that it is a public sector entity that does not trade commercially. The figure was based on the full year outturn per the draft financial statements.

The asset based materiality has been applied specifically to the PPE and associated balance sheet entries. The figure was based on the full year outturn per the draft financial statements.

APPENDIX IV: INDEPENDENCE

INDEPENDENCE - ENGAGEMENT TEAM ROTATION		
SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDED
Richard Bint - Audit engagement partner	6	31 March 2014
Stuart Frith - Audit manager	2	31 March 2022

INDEPENDENCE - THREATS TO INDEPENDENCE AND APPROPRIATE SAFEGUARDS

We have not identified any potential threats to our independence as auditors of the financial statements.

We confirm that the firm complies with the APB Ethical Standards and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

APPENDIX V: ACTION PLAN

INTERNAL CONTROL RECOMMENDATIONS					
CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
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.	High	A review of authorisation limits and responsibilities for purchasing will take place in 2013/14 in the light of the Council's agile working initiative and corporate restructuring, which both have a bearing on the approach to purchasing. Work will continue on rolling out electronic purchase ordering where it is appropriate to do so. Relevant officers will be reminded of their roles and responsibilities.	Head of Finance	Ongoing to March 2014

APPENDIX VI: FEES SCHEDULE

The Audit Commission's *Standing Guidance for Auditors* requires us to report the outturn fee position for the year against the budgeted fee included within our Audit Plan.

We will carry out a detailed comparison of actual audit costs incurred against planned costs when we have completed the audit and discuss any impact on the planned fee with management, before we report the final fee outturn.

APPENDIX VII: STATUTORY AND PROFESSIONALLY REQUIRED COMMUNICATIONS

COMMUNICATION REQUIRED	DATE COMMUNICATED	TO WHOM	METHOD
	23 September 2013	Management and those charged with governance	Report to Audit and Standards Committee
Potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements.	Not an issue	Not an issue	Not an issue
Misstatements, whether or not recorded by the entity.	✓	✓	✓
The final draft of the representation letter.	✓	✓	✓
Material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern.	Not an issue	Not an issue	Not an issue
Disagreements with management about matters that, individually or in aggregate, could be significant to the entity's financial statements or our audit report.	Not an issue	Not an issue	Not an issue
Expected modifications to our audit report or inclusions of emphasis of matter / other matter.	Not an issue	Not an issue	Not an issue
Significant deficiencies in internal control paragraph.	✓	✓	✓
Any other matters warranting attention by those charged with governance, such as questions regarding management integrity, and fraud involving management.	Not an issue	Not an issue	Not an issue
Going concern issues.	Not an issue	Not an issue	Not an issue
Management judgements and accounting estimates.	✓	✓	✓
Other information in documents containing audited financial information.	✓	✓	✓
Consultation with other accountants.	Not an issue	Not an issue	Not an issue
Major issues discussed with management.	Not an issue	Not an issue	Not an issue

APPENDIX VIII: DRAFT REPRESENTATION LETTER

BDO LLP
55 Baker Street
London
W1E 7EU

25 September 2013

Dear Sirs

Financial statements of Lewes District Council for the period ended 31 March 2013

This representation letter is provided in connection with your audit of the financial statements of Lewes District Council for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view, have been properly prepared in accordance with the relevant financial reporting framework and have been prepared in accordance with the requirements of applicable law.

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

FINANCIAL STATEMENTS

Responsibility for financial statements

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

Significant assumptions

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

Pension fund assumptions

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

- Rate of inflation 2.8%

- Rate of increase in salaries 5.1%
- Rate of increase in pensions 2.8%
- Rate for discounting scheme liabilities 4.5%
- Take up option to convert the annual pension into retirement grant 50%

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

Pension fund investments fair values

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

Valuation of housing stock

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

Carrying value of land and buildings

I am satisfied that the carrying value of land and buildings is materially consistent with the fair value at 31 March 2013, and that no adjustment is required to those assets that were revalued as part of the five-year rolling programme in previous years.

Fair value measurements and disclosures

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

Accounting policies

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

Plans or intentions

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

Litigation and claims

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

Related parties

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

Subsequent events

All events occurring subsequent to the date of the financial statements for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.

Uncorrected misstatements

You have brought to my attention potential misstatements in the financial statements as listed in the appendix to this letter. I do not wish to amend the financial statements to reflect any of these items as I believe that they are immaterial both individually and in aggregate to the view given by the financial statements as a whole. A list of these items is attached as an appendix to this letter.

Going concern

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

INFORMATION PROVIDED

Completeness of information

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

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

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

Internal Control

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

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

Fraud

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

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

I have disclosed to you my knowledge of any allegations of fraud, or suspected fraud affecting the financial statements communicated to me by employees, former employees, analysts, regulators or others.

Compliance with laws and regulations

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

The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

Related parties

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

Liabilities, contingent liabilities or guarantees

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

Title to assets

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

Contractual agreements

The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

Yours faithfully

John Magness
Director of Finance

Representations of the Council

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

Responsibility for the financial statements

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

Uncorrected misstatements

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

Annual Governance Statement

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

Yours faithfully

Councillor Eiloart
Audit and Standards Committee Chair

For and on behalf of the Audit and Standards Committee, Lewes District Council



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

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