

LEWES DISTRICT COUNCIL

Annual Audit Letter 2012/13

October 2013

EXECUTIVE SUMMARY

Background

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

The Audit Commission will publish this letter on its website after 1 November 2013. The Council should also publish the letter on Lewes District Council's website.

Responsibilities of auditors and the Council

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England. As the external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Council achieving its objectives.

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

Scope of the audit

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

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

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

Our work on the audit of the grant claims and other returns is in progress and we will report the findings from this work separately.

Our aim is to deliver a high standard of audit which makes a positive and practical contribution that supports the Council's own agenda. We recognise the value of the Council's co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the audit

Key findings

| | |
|----------|--|
| | STATEMENT OF ACCOUNTS |
| 1 | <p>Our audit of the financial statements for the period ended 31 March 2013 was completed by 30 September 2013 in line with the statutory deadline.</p> <p>One material misstatement was identified during the audit in relation to the accounting for the value of additions to HRA council dwelling (including components such as kitchens and bathrooms). Appropriate amendments were made to the final financial statements.</p> <p>Our final Annual Governance Report was considered by the Audit and Standards Committee on 23 September 2013 and the financial statements were signed by Lewes District Council on 26 September. We issued an unqualified opinion on 27 September.</p> |
| | USE OF RESOURCES |
| 2 | <p>We issued an unqualified value for money conclusion. We found some strengths in the Council's arrangements for ensuring financial resilience and economy, efficiency and effectiveness in the use of resources. We issued an unqualified value for money conclusion on 27 September 2013.</p> |
| | OTHER MATTERS |
| 3 | <p>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).</p> <p>The Council's WGA is below the threshold for full assurance review, and we completed a short-form assurance review which confirmed that the "net funded pension balance" was consistent with the audited financial statements and that the "property, plant and equipment carrying amount at 31 March 2013" was inconsistent because of the material audit adjustment. The short form assurance statement was submitted on the 2nd October before the deadline of 4th October.</p> |

STATEMENT OF ACCOUNTS

1

OPINION

We issued an unqualified true and fair opinion on the financial statements on 27 September 2013.

Financial statements

The Council's arrangements for preparing and publishing the draft financial statements remain effective.

We identified specific risks in planning our audit work and undertook additional procedures to review transactions and disclosures in respect of:

- management override of controls
- the appropriate recognition of revenue within the financial statements

No significant issues arose in these areas or from our audit of the financial statements. Our work was completed in accordance with the Government deadline based on the comprehensive working papers produced by the Finance Team.

Material misstatements corrected by management:

The financial statements included an impairment loss of £5.288 million written off the value of council dwelling additions, this representing officers' view of the required adjustment to reflect the change in value of council dwellings. The additions were in respect of:

- new bathrooms, kitchens, re-wiring, other building and disabled facility works on council dwellings
- The Crest property addition.

Following discussion with management of the required accounting treatment for these entries, it was confirmed that the £5.288m impairment entry would be removed and the following revised entries would be made:

- 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.
- The Crest would be included at the costs of purchase as works were continuing to ensure the building could be brought into use for social housing at year end.

Management has processed the changes to the accounts arising from the above, with changes made to the primary statements and associated disclosure notes.

Non-material misstatements corrected by management:

The following non-material misstatements identified by the audit were amended by management:

- 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)

Unadjusted disclosure matter

The accumulated depreciation has not been netted off against the gross valuation on revaluation within note 13 to the financial statements.

Internal controls

Working with internal audit, we again found one deficiency in controls, affecting the operation of the creditor payments system involving the authorisation of purchase order requisitions and invoices.

We completed extended audit testing to gain assurance that the balances produced by the system were materially correct. Management has agreed to strengthen relevant internal controls and processes within the creditor payments system.

USE OF RESOURCES

2 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. We issued an unqualified value for money conclusion on 27 September 2013.

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

- the organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
- the organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Our work considered the outcome from the Audit Commission's financial ratio tool and value for money profile tool as well as a review of the medium term financial strategy, performance reports, integration reports on progress and strategic and operational planning documents. Discussions were held with key officers to confirm and update our knowledge as part of the process. We also updated our knowledge of the Council's governance arrangements, financial, performance and risk management arrangements.

Financial resilience

The Council's financial governance arrangements have continued to enable strong leadership on financial matters from the top of the organisation 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. The 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 million 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 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 - effectiveness

The Council has previously made effective use of value for money cost and income benchmarking information to review and identify service areas that had potential to yield additional income or reduce costs when compared to the nearest neighbour group. The Council has completed a range of service reviews, which have ensured a greater emphasis on benchmarking, demonstrating how support service costs and spend in those areas where it is above average can be reduced, and has heavily influenced the Council's continuing service planning and budget setting processes.

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

The June 2013 report on the next steps for Programme Nexus outlined the key development for the Council in terms of service arrangements and provision, with a key

issue being the implementation of a new organisational structure. Key to this 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 commenced through work to reduce overhead costs, better the use of technology and smarter use of office accommodation by flexible working, all of which continue to be actively pursued. The report seeks to develop these and sets out the timetable for delivery. Monitoring and review of performance will be key to ensuring delivery of efficiencies from Programme Nexus.

Value for Money Profile Tool

As part of our review we 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 received appropriate commentary on the Council's relative performance levels. We are aware the Council has also made use of some of the available information as part of its reporting to the Scrutiny committee on benchmarking performance of its waste service.

Performance towards corporate priorities

The Council has reported positive performance in many areas in 2012/13 with a little over half (59%) of the Council Plan key aims and targets either being met or progressed towards delivery. There are a number of areas where the Council has identified that improvement could be made to current performance levels.

OTHER MATTERS

3

REPORT BY EXCEPTION

We have no matters to report.

Annual Governance Statement

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

Audit of grant claims and other returns

Our audit of grant claims and other government returns remains in progress for the period ended 31 March 2013. In January 2013, we reported the outcome of our audit of such claims and returns for the period ended 31 March 2012. The Council prepared one grant claim and three Government returns for that period and the total value of these was over £65 million.

The 2011/12 housing and council tax benefit subsidy claim was amended to correct errors affecting the benefit administered by the Council. The overall impact being a reduction in subsidy of only £902 (the total value of the claim was £41 million). Where we were unable to carry out additional audit procedures to fully quantify other errors identified, we included the facts in a qualification letter to the Government department. The Council agreed to implement our recommendation to ensure benefit entitlement is calculated accurately based on the information provided by claimants.

No issues arose from our audit of the National non-domestic rates, Pooling of housing capital receipts and Housing revenue account subsidy returns in 2011/12.

Whole of Government Accounts

The Council’s WGA is below the threshold for full assurance review, and we completed a short-form assurance review which confirmed that the “net funded pension balance” was consistent with the audited financial statements and the “property, plant and equipment carrying amount at 31 March 2013” was not consistent with the audited financial statements because of the material audit adjustment.

APPENDIX

Reports issued

We issued the following reports in respect of the 2012/13 financial year.

| REPORT | DATE |
|---|----------------|
| Planning letter | December 2012 |
| Audit Plan | March 2013 |
| Annual Governance report to Audit and Standards Committee | September 2013 |
| Annual Audit Letter | October 2013 |

Fees update

We reported our original fee proposals in our Audit Plan issued in March 2013. We have completed the audit of the financial statements and there are no changes to the fee as originally reported. Work remains in progress on the Council's grant claims and returns and we will update the Audit and Standards Committee when this work has been completed.



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

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO Northern Ireland, a separate partnership, operates under a licence agreement. BDO LLP and BDO Northern Ireland are both separately authorised and regulated by the Financial Conduct Authority to conduct investment business.

Copyright ©2013 BDO LLP. All rights reserved.

www.bdo.co.uk

