EASTBOURNE BOROUGH COUNCIL

Annual Audit Letter 2012/13

23 October 2013

EXECUTIVE SUMMARY

Background

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

It is the responsibility of the Council to publish this on the 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, Grants claims and certification work, and whether we have exercised our statutory powers under the Audit Commission Act 1998 in any matter.

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 your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the audit.

Key findings

	STATEMENT OF ACCOUNTS
1	We issued an unqualified true and fair opinion on the financial statements on 27 September 2013. A small number of unadjusted audit differences were not corrected in the final published financial statements. These did not affect the reported deficit for the year but would reduce net assets and reserves by £71,000. We noted a deficiency in internal controls in respect of theatre tickets reconciliations that management has agreed to review and address.
	USE OF RESOURCES
2	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.
	OTHER MATTERS
3	We are satisfied that the Annual Governance Statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with "Delivering Good Governance in Local Government" (CIPFA / SOLACE). The Council's WGA is below the threshold for full assurance review and we completed a shortform assurance review. We reported that, following adjustments to the opening gross cost and depreciation in the financial statements, the information on property, plant and equipment reported in the WGA was not consistent with the audited financial statements. However, the opening net book value was included correctly. Our work on the audit of the grant claims and other returns for 2012/13 is in progress and we will report the findings from this work in December 2013.

STATEMENT OF ACCOUNTS

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

Financial statements

The following presentational misstatements were identified and corrected during the audit:

- related party transactions with voluntary organisations updated for actual payments
- group income statement was amended for the adjustment to align accounting policies for leaseholder improvements
- reclassification of capital adjustments between the revaluation reserve and Capital Adjustment Account
- removal and netting off of valuation adjustments to property, plant and equipment in the prior year and the current year
- update earmarked reserves note to reflect the transfer for the difference between the MRA and depreciation charge of £298,000
- additional information and disclosures associated with the group accounts
- revision to the operating lease income note by relevant year of income
- additional risk information and analysis for financial instruments.

Three misstatements were identified that were not corrected in the final published financial statements:

- £115,000 accumulated absences earned but not yet taken have been included as a provision but should be classified as a creditor in the balance sheet
- the final valuation of heritage assets (various paintings and art) was £35,000 higher than the initial valuation reports used in preparing the financial statements
- the Goffs land and buildings asset has been revalued to £606,000 based on the initial sealed bids but this has not proceeded as the updated valuation at £500,000 has not been reflected in the financial statements.

The net effect of adjusting for these differences would be to decrease net assets and reserves by £71,000. Management considered that these uncorrected misstatements did not have a material impact on the financial statements, either individually or in aggregate, and the Audit and Governance Committee accepted the assertion that the misstatements need not be corrected for this reason.

There is no impact on the reported deficit for the year. We consider that these misstatements did not have a material impact on our opinion on the financial statements.

Internal controls

We believe that there is a significant deficiency in internal controls in respect of Theatre cash and bank reconciliations ('databox reconciliations') as the reconciliations are not completed on a monthly basis and variances are not being investigated.

We are aware that the reconciliations have been completed retrospectively however good practice would be to ensure that reconciliations are completed on a monthly basis and that any variances are investigated in a timely manner.

Other observations

We noted that the Council's policy for depreciation and amortisation is that no amounts are charged in the year of acquisition and the final charge is included for the full year in the year of disposal. We have suggested that depreciation and amortisation should commence in the month following acquisition (or at least quarterly).

Land and buildings are required to be carried at fair value and guidance currently allows five-yearly valuations as a minimum. The guidance has been updated for 2013/14 and there is an expectation that management will obtain more frequent valuations, either as a desktop review or full valuation, in future years.

We note that, going forward, the Council intends to obtain valuations for works of art held in the Towner collection at 10 year intervals. In our view, for art values in excess of £11 million, management should consider more frequent valuations or apply interim desktop valuations based on recognised relevant indices.

We noted from our review of records obtained from the Land Registry that a number of properties and land that were transferred to East Sussex County Council many years ago are still recorded in the name of Eastbourne Borough Council. We have suggested that management obtain a full list of assets held, compare this to the official records held by the Land Registry and resolve any inconsistencies.

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.

Financial resilience

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

The revised 2012/13 budget included planned use of £856,000 of general reserves and reduced use of the General Fund to £502,000. The outturn was generally in line with the revised budget, with additional costs for redundancies and theatres offset by additional income from benefit subsidy, recovered benefit overpayments and additional grant funding.

As at 31 March 2013, the General Fund balance was £3.9 million which provides significant headroom over the minimum level of £2 million recommended by Chief Finance Officer.

The Medium Term Financial Strategy (MTFS) was updated during the year to cover the four year period to 2016/17. This has identified a base funding gap of £3.6 million with planned use of £1 million of the General Fund for non-recurring expenditure. This is addressed by efficiency savings of £2.2 million and procurement savings of £1.4 million.

The MTFS has not budgeted for any New Homes Bonus funding and other one off grants that are likely to be received (including a grant for the retention of weekly household waste collection of £2.6 million), providing some flexibility over any further draw down of reserves and opportunities for further capital investment.

Clear leadership has been shown on financial planning matters through the work of the Cabinet and the Corporate Management Team to prepare for, and then respond to, the Government's Comprehensive Spending Reviews and known financial settlements. It is important that this is continued as the Council faces the challenge of delivering the change required to remain sustainable into the medium term.

Challenging economy - efficiency - effectiveness

The Council continues to challenge the resource allocation in the next round of budget and medium term financial planning. Members have a clear understanding of the Council's financial challenges and are being supportive of officers in the budgetary process.

Key focus areas in the medium term continue to include:

- ensuring that financial benefits continue to realised from the work being done on Sustainable Service Delivery Strategy
- ensuring that financial benefits are realised from the work being done on rationalising and renegotiating external contracts through the work on procurement
- monitoring both cost and performance to demonstrate to members that despite significant reductions in costs, services continue to deliver services in line with corporate priorities to demonstrate the achievement of value for money.

Performance towards key projects underpinning achievement of the Council's four cross cutting themes (a Prosperous Economy; Quality Environment; Thriving Communities and Sustainable Performance) is regularly monitored by the Cabinet through the quarterly Corporate Performance Report. For the year to 31 March 2013, 28 out of the Council's 39 key performance indictors achieved their targets.

The Council continues to challenge the way services are delivered in response to addressing the medium term financial position.

OTHER MATTERS

3 REPORT BY EXCEPTION	We have no other matters to report.

Annual Governance Statement

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

Whole of Government Accounts

The Council’s WGA is below the threshold for full assurance review and we completed a shortform assurance review. We reported that, following adjustments to the opening gross cost and depreciation in the financial statements, the information on property, plant and equipment reported in the WGA was not consistent with the audited financial statements. However, the opening net book value was included correctly.

Grant claims and certification

We presented our most recent Grant claims and returns certification report in February 2013, which included the results of the audited returns for 2011/12. We certified four returns amounting to over £88 million. Our report noted that one return, Housing and council tax benefit subsidy, was qualified in respect of classification of overpayments by type, and the remaining three were submitted without qualification.

Two of the returns required amendment including a reduction of £7,223 for the Housing and council tax benefit subsidy for rent thresholds for non-HRA tenancies, and a technical amendment to shared ownership dwellings in the Housing subsidy return that did not have any impact on the overall amount of subsidy receivable.

To date, we have certified two returns for 2012/13. Our work on the audit of the grant claims and other returns for 2012/13 is in progress and we will report the findings from this work in December 2013.

APPENDIX

Reports issued

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

REPORT	DATE
Planning letter	December 2012
Grant claims and returns certification 2011/12	February 2013
Audit Plan	March 2013
Final Audit Report	September 2013
Annual Audit Letter	October 2013

Fees update

We reported our original fee proposals in our Audit Plan issued in March 2013. Our fees to date and any variance to the original proposal are shown below.

AUDIT AREA	PROPOSED FEES £	FEES UPDATE £
Scale fee	88,920	88,920
Certification work fee	21,900	*(note1 1)* 22,350
Total fees for audit services	110,820	110,820
Non audit fees	-	*(note1 2)* 2,250

Certification work fees [1]

The certification fees have been increased by £450 to incorporate fees for the annual final report of the findings of the certification work.

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

Non audit services [2]

The Council has an annual subscription with BDO to provide general support for PAYE/VAT queries and issues.