



# EASTBOURNE BOROUGH COUNCIL

Annual Audit Letter 2013/14

October 2014

# EXECUTIVE SUMMARY

## Background

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

## Responsibilities of auditors and the council

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

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

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

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

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

BDO LLP  
22 October 2014

## STATEMENT OF ACCOUNTS

1

We issued an unqualified true and fair opinion on the financial statements on 24 September 2014.

Five material misstatements were identified as a result of our audit, which have been corrected in the revised financial statements and have reduced the deficit for the year by £23.241 million. However, as these corrections all relate to capital items which are subsequently reversed through reserves, there is no impact on the closing General Fund or HRA balance.

There are four unadjusted audit differences identified by our audit work which would decrease the revised deficit on the provision of services by £748,000 to £1.701 million (from £2.449 million).

We did not identify any significant deficiencies in controls although we have reported that improvements should be made regarding accounting for significant capital expenditure on council dwellings and for accounting for replacement of significant components.

## USE OF RESOURCES

2

We issued an unqualified value for money conclusion on 24 September 2014.

The Council maintains healthy levels of earmarked reserves and balances. The budget for 2014/15 includes a savings requirement of £1.6 million which it plans to achieve through a combination of efficiency savings, income generation schemes and reduced contribution to reserves of £0.8 million. The Council continues to challenge the way services are delivered in response to addressing the medium term financial position.

## OTHER MATTERS

3

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

The Council's WGA submission is below the threshold for audit and we are required only to review the total amounts included in the Data Collection Tool for property, plant and equipment and for the net pension liability. The original submission was consistent with the draft financial statements although will require resubmission to reflect the amendments to the final audited financial statements.

## GRANT CLAIMS AND RETURNS CERTIFICATION

4

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

# STATEMENT OF ACCOUNTS

1

OPINION

We issued an unqualified true and fair opinion on the financial statements on 24 September 2014.

## Financial performance

The Council reported a deficit on the provision of services of £2.449 million.

After adjusting for items in the Movement in Reserves Statement, the Council reported a surplus on the General Fund of £2.612 million before transfers to earmarked revenue reserves of £1.844 million, resulting in a net increase to the General Fund balance of £0.768 million. The HRA reported a surplus of £0.525 million after transferring £0.553 million to earmarked revenue reserves.

## Financial statements

The draft Statement of Accounts was prepared and provided to us for audit on 30 June 2014. A comprehensive file of audit working papers was also provided.

Five material misstatements were identified and corrected in the financial statements. These corrections reduced the reported deficit for the year by £23.241 million. These misstatements also impacted on amounts reported in prior years and corrections were also made to the previous year's financial statements.

However, as these corrections all relate to capital items which are subsequently reversed through reserves, there is no impact on the closing General Fund or HRA balance.

There are four remaining unadjusted audit differences identified by our audit work which would decrease the revised deficit on the provision of services by £0.748 million to £1.701 million (from £2.449 million).

We consider that these misstatements did not have a material impact on our opinion on the financial statements.

## Internal controls

We did not identify any significant deficiencies in controls.

However, we found that the Council incurred expenditure of £18.183 million on the refurbishment of its housing stock in the last three years which was written off as impairment in the current year on the grounds that management considered that it did not add any enhanced value to the properties.

The financial reporting standard for property, plant and equipment requires that asset components are derecognised when they are replaced. The Council had not derecognised any of the items replaced in the refurbishment work as these were not separately identifiable.

Amendments have been made to correct amounts capitalised in previous years where this expenditure replaced components that continued to be included in the valuation of dwellings.

We have recommended that the Council should review its procedures for accounting for significant capital expenditure on council dwellings, to ensure that replaced components are appropriately removed from the valuation of dwellings.

# USE OF RESOURCES

2

## CONCLUSION

We issued an unqualified value for money conclusion on 24 September 2014.

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

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

## Financial resilience

Clear leadership has been shown on financial governance matters through the work of the Cabinet and the management team to respond to the Government's spending review.

The Medium Term Financial Strategy (MTFS) and Capital Strategy identify and direct resources at a strategic level, which are then developed through the service and financial planning and budget setting process.

The Council maintains healthy levels of earmarked reserves and balances. The MTFS was updated and approved by Cabinet during the year to cover the four year period to 2017/18. This identified a base funding gap of £3.6 million over the period, to be met by a combination of efficiency savings of £2.2 million and procurement savings of £1.4 million.

In 2013/14 planned savings of £1.5 million were achieved of which £1 million related to the waste and street cleaning contract. The budget for 2014/15 includes a savings requirement of £1.6 million to be met from efficiency savings, income generation schemes and reduced contribution to reserves. Management has reported that a significant level of savings required for the medium term has already been identified and that the change programmes in place under the Council's transformation programme (DRIVE) and Sustainable service delivery programme (SSDS) are projected to deliver savings in excess of the minimum requirement in order to create headroom for investment in priority services.

The Council incurred a deficit of £3 million on business rates in the Collection Fund in 2013/14. This was largely due to a higher than anticipated provision for outstanding appeals and the fact that the government made changes to small business rate reliefs after the Council had set its collection fund estimates.

## Challenging economy, efficiency and effectiveness

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

Key focus areas in the medium term continue to include:

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

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.

Performance in 2013/14 illustrates that the Council continues to make improvements in many areas, although there remains scope to deliver improvement in some areas.

Partnership working with other public sector organisations and the voluntary and community sector underpins the Council's approach to value for money. The Council Plan contains clear commitments to partnership working in providing services to local people.

# OTHER MATTERS

3

REPORT BY EXCEPTION

We have no other matters to report.

## Annual Governance Statement

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

## Whole of Government Accounts

The Council's WGA submission is below the threshold for audit and we are required only to review the total amounts included in the Data Collection Tool for property, plant and equipment and for the net pension liability.

The original submission was consistent with the draft financial statements although will require resubmission to reflect the amendments to the final audited financial statements.

# GRANT CLAIMS AND RETURNS CERTIFICATION

4

## CERTIFICATION WORK

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

### Certification findings 2012/13

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

We certified three returns amounting to over £93 million. The Housing Pooled Capital Receipts return and National non-domestic rates return were certified without amendment or qualification.

Our audit of the Housing and Council Tax Benefits subsidy claim found a number of errors in processing benefit claims, classification of overpayments and the reconciliation of benefit entitlement claimed and that paid to claimants. DWP wrote to the Council to state that it intends to withhold £19,817 of subsidy and to seek assurances that these issues will be addressed in 2013/14. The Council responded on 21 January to confirm that non HRA tenancy type classifications will be reviewed and a monthly review of overpayments will be undertaken and additional training provided where necessary.

### Work in progress for 2013/14

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

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

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

# APPENDIX

## Reports issued

We issued the following reports during the year.

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


## Fees update

We reported our original fee proposals in our Audit Plan issued in March 2014. 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	12,592	<i>(note 1)</i> 12,592
Total fees for audit services	101,512	101,512
Non audit fees		
- Decent homes backlog funding claim	-	2,000
- Tax subscription service	2,500	2,500

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

Certification work fees have reduced from £22,350 in 2012/13 to £12,592 to reflect the reduced work required for housing benefits, council tax benefits and NDR income. In previous years, we were able to take assurances of amounts included in the financial statements for council tax benefits (now local council tax reduction scheme) and NDR net yield from this work. As a result, we have had to undertake additional testing on the financial statements this year and we are currently discussing with the Audit Commission a small increase in the scale fee. We will report the final fee outturn once this has been agreed with management and the Audit Commission.



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

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO LLP is separately authorised and regulated by the Financial Conduct Authority to conduct investment business.

Copyright ©2014 BDO LLP. All rights reserved.

[www.bdo.co.uk](http://www.bdo.co.uk)

