



# EASTBOURNE BOROUGH COUNCIL

Annual Audit Letter 2014/15

13 October 2015

# 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 key 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 financial statements
- 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  
13 October 2015

## FINANCIAL STATEMENTS

1

We issued an unqualified true and fair opinion on the financial statements on 23 September 2015.

There were a number of presentational corrections and amendments to disclosures made to the financial statements as a result of the audit, including reclassifying £4.391 million for the write down of replaced components on refurbishment of council dwellings that had been classified as an impairment loss rather than a loss on de-recognition of property, plant and equipment. However, these corrections had no impact on the surplus on provision of services or the general fund balance.

There were five audit differences that were not corrected by management that would increase the surplus on the provision of services by £276,000 to £7.393 million.

We noted a number of areas where deficiencies in internal controls should be improved or where the control environment could be strengthened, particularly around journal authorisation, access to the fixed assets register and checking registration for workers paid through a personal service company.

## USE OF RESOURCES

2

We issued an unqualified value for money conclusion on 23 September 2015.

There are healthy levels of reserves and balances available to support the Council's services and the savings required are not significantly above the savings that have been delivered in recent years.

Therefore, while there is a recognised funding gap in the MTFs, we are satisfied that the Council has appropriate arrangements to continue to remain financially sustainable over the period of the MTFs.

## OTHER MATTERS (REPORT BY EXCEPTION)

3

We have not exercised our statutory powers and have no matters to report.

We issued the audit certificate to close the audit for the year ended 31 March 2015 on 23 September 2015.

## GRANT CLAIMS AND RETURNS CERTIFICATION

4

Our review of grant claims and returns is in progress and the results will be reported upon completion of this work.

# FINANCIAL STATEMENTS

1

OPINION

We issued an unqualified true and fair opinion on the financial statements on 23 September 2015.

## Financial performance

The Council reported a surplus on the provision of services of £7.117 million.

After adjusting for items in the Movement in Reserves Statement, the Council reported a surplus on the General Fund of £611,000 before transfers to earmarked revenue reserves of £399,000, resulting in a net increase to the General Fund balance of £212,000.

The HRA reported a surplus of £557,000 before transfers to earmarked revenue reserves of £111,000, resulting in a net increase to the HRA balance of £446,000.

## Financial statements

The draft Statement of Accounts was prepared and provided to us for audit on 30 June 2015, and supporting audit working papers were provided on the first day of the audit.

There were a number of presentational corrections and amendments to disclosures made to the financial statements as a result of the audit. This included one material presentational misstatement relating to £4.391 million for the write down of replaced components on refurbishment of council dwellings that had been classified as an impairment loss rather than a loss on de-recognition of property, plant and equipment. Overall, these corrections had no impact on the surplus on provision of services or the General Fund balance.

There were five audit differences that were not corrected by management that would increase the surplus on the provision of services by £276,000 to £7.393 million:

- £61,000 increase in housing valuations that would reverse impairments charged to the HRA in previous years
- (£89,000) increased expenditure arising from incorrect accounting on revaluations
- £237,000 reduced expenditure for over accrual of NDR levy payable to DCLG
- £105,000 increased income from under accrual of section 31 business rate relief grant
- (£38,000) reduced NDR income due to under accrual of appeals provisions.

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

## Significant judgements and estimates

We reviewed the significant accounting estimates and management judgements used to prepare the financial statements, and we were satisfied that these were appropriate and within an acceptable estimation range.

The key movements arising on accounting estimates were:

- Land and buildings valuations increased by £8.9 million mainly due to increases in valuations of council dwellings
- Net pension liabilities increased by £3.2 million mainly due to a reduction in the discount rate on the estimated future cash flows to pay pensions, which has resulted in a significant increase in the present value of the scheme liabilities
- Amounts set aside for the potential non-recovery of amounts due to the Council decreased by £80,000 for housing benefit overpayments, and increased by £81,000 for council tax arrears and £24,000 for NDR arrears.

## Internal controls

We noted a number of areas where deficiencies in internal controls should be improved or where the control environment could be strengthened, particularly regarding:

- Journal authorisation below £100,000
- Annual review of fully depreciated assets for continued operational use
- Password controls access to the fixed assets register
- Checking registration for workers paid through a personal service company.

Management has agreed to review and strengthen these internal controls.

# FINANCIAL STATEMENTS

## Narrative reporting

Local authorities are required to include an explanatory foreword in the Statement of Accounts to provide an explanation of the financial position and to assist in the interpretation of the financial statements.

The Council provided a comprehensive analysis of the performance against budgets for the General Fund, HRA and capital programme, and also the outturn on the collection fund.

The foreword includes an explanation as to why the financial outturn in the foreword differs to how this is presented through the Comprehensive Income and Expenditure Statement and the statutory adjustments through the Movement in Reserves Statement.

The reported outturn performance could be reconciled to within an acceptable level with the performance reported in the Movement in Reserves Statement, although the reader of the report would not be able to readily reconcile this to the surplus on the provision of services reported in the Comprehensive Income and Expenditure Statement.

CIPFA is considering how local authorities can develop its narrative reporting requirements, such as including management commentary or strategic reporting, but has postponed this review until the legislative requirements for the sector are resolved.

However, CIPFA's consultation on 'Telling the Story' will propose introducing a reconciliation from the reported outturn in the financial statements to the Council's management accounts.

## 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 and complies with Delivering Good Governance in Local Government (CIPFA / SOLACE).

# USE OF RESOURCES

2

## CONCLUSION

We issued an unqualified value for money conclusion on 23 September 2015.

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 originally budgeted for a General Fund surplus of £53,000 after transferring £500,000 to the regeneration reserve (earmarked revenue reserves) to facilitate regeneration projects under the Council's Transformation programme (DRIVE).

While there were some overspends in the year, this was covered by a contingency allowance in the budget. The Council also significantly over performed against some income budgets including housing benefits overpayments recovered, theatres income and crematorium. However, income from NDR was significantly reduced in the year as the Council was required to make a contribution to the collection fund prior year deficit arising on NDR appeals.

Overall, the Council reported a surplus of £611,000, transferring £399,000 to earmarked revenue reserves (slightly down on the budgeted amount), and taking the remaining surplus of £212,000 in the General Fund balance. The General Fund balance at 31 March 2015 was £4.899 million, above the £2 million minimum level recommended by the Chief Finance Officer, and provides sufficient headroom.

The HRA budgeted for a surplus of £308,000, after transferring £500,000 to earmarked reserves. The outturn was a surplus of £446,000 surplus, including £111,000 transferred to earmarked revenue reserves and £1.184 million not required to be drawn from capital resources due to slippage on the capital programme for dwelling improvements. The HRA balance at 31 March 2015 was £3.150 million.

Earmarked revenue reserves increased by £510,000 to £6.351 million.

The Council achieved £587,000 of its efficiency savings target of £608,000 in 2014/15, which included schemes under Phase 1 of the Council's Sustainable service delivery programme (SSDS) programme and schemes related to the waste contract.

The Council has set a balanced budget for 2015/16 with a savings requirement of £2.4 million which it plans to achieve through a combination of efficiency savings of £1 million, income generation schemes of £500,000 and reduced contribution to reserves of £900,000. Budget monitoring to date shows a small overspend of £24,000 to June 2015, but well within the £152,000 contingency allowance.

In light of the recent announcements made by the Chancellor in relation to a change to the convergent rents formula that will be replaced with a formula that requires a 1% decrease in rents each year from 1 April 2016, the Council is considering how this will impact on its HRA Business Plan. It is likely that future HRA surpluses and the capital programme could be significantly reduced.

The Medium Term Financial Strategy (MTFS) was updated and approved by Cabinet in July 2014 to cover the four year period to 2018/19. This identified a base funding gap of £2.7 million over the period, to be met by a combination of savings from the Council's SSDS programme, efficiency savings and procurement savings. The MTFS was updated again in July 2015 to cover the four year period to 2019/20. This indicates that the Council needs to make an average level of savings of £600,000 per annum over the life of the MTFS.

There are healthy levels of reserves and balances available to support the Council's services and the savings required are not significantly above the savings that have been delivered in recent years.

Therefore, while there is a recognised funding gap in the MTFS, we are satisfied that the Council has appropriate arrangements to continue to remain financially sustainable over the period of the MTFS.

# USE OF RESOURCES

## Challenging economy, efficiency, effectiveness

The Council's Corporate Plan 2010-2015 was refreshed in 2014 and builds on the developments of the Customer First programme. It also outlines the investments in Sovereign Harbour, the town centre and proposals around the Devonshire Park site to drive economic growth.

All of the key Corporate Plan actions were either delivered or remain on target. Of the 29 Key Performance Indicators reported in the Corporate Plan at Quarter, 4 were showing as Red, 11 as Green, 5 as Amber and 9 are data only or contextual PIs.

The KPIs under performing are:

- Marketing campaign value for money cost per response at 63 pence against a target of 60 pence
- Net additional 160 homes provided against a target of at least 228
- Number of completed adaptations (Disabled Facilities Grants) of 87 against a minimum target of 100
- Time taken to process Housing Benefit/Council Tax Benefit new claims and change events at 11.8 days against a target of 10 days due to the system migration in year.

The Audit Commission, and now Public Sector Audit Appointments Ltd, provides auditors with a VfM Profile Tool of comparative financial data for all local authorities.

We have reviewed the reports available with data populated in July 2015, which includes mainly 2013/14 outturn costs, comparing the Council with an all-district council comparative group. The outliers are:

- the net spend per head in 2013/14 in total at £164.17 (versus an average of £124.21), and across a number of key service lines, is high but this can be explained by the Council not being in a parish council area (where their expenditure is excluded from this indicator) and the Council is in receipt of a significant amount of non-ringfenced grants.
- Spend on administration for council tax and housing benefits is above average but the Council does have above average caseload and claimant numbers due its demographics.
- High gross spend on culture and sport reflects the Council's high spend on theatres and galleries and this is offset by the high income also generated by these services.
- Percentage of household waste sent for reuse, recycling and composting is low at 33.48% versus an average 43.78%, and high residual waste at 504kg versus an average of 467kg.

# OTHER MATTERS

3

REPORT BY EXCEPTION

We have no other matters to report.

## Whole of Government Accounts

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

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

## Use of statutory powers

We have not exercised our statutory powers and have no matters to report.

## Audit certificate

We issued the audit certificate to close the audit for the year ended 31 March 2015 on 23 September 2015.

# GRANT CLAIMS AND CERTIFICATION

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## CERTIFICATION WORK

Our review of grant claims and returns is in progress and the results will be reported upon completion of this work.

### Housing benefit subsidy claim

Public Sector Audit Appointments Ltd has a statutory duty to make arrangements for certification by the appointed auditor of the annual housing benefit subsidy claim.

Our audit of the 2013/14 housing benefits subsidy claim found a number of errors in relation to the following benefit types:

- Non-HRA rent rebates - local allowance housing rates, incorrect tenancy type classification, misclassified overpayments and non-dependant deductions
- HRA rent rebates - non-dependant deductions
- Rent allowances - income assessments, local housing allowance rates and rent amounts
- Modified schemes - war disablement pension uplift.

We also reported that the reconciliation of the total benefit entitlement generated to amounts paid was incomplete.

The errors found, including extrapolated errors on the large populations, suggested that the Council had over claimed subsidy of £31,127.

Our work on the 2014/15 housing benefits subsidy claim is currently in progress and will be completed ahead of the submission deadline of 30 November 2015.

### Other claims and returns

A number of grant claims and returns that were previously included within the scope of the audit have since been removed, but Departments may still seek external assurance over the accuracy of the claim or return.

These assurance reviews are undertaken outside of our appointment by the Audit Commission or Public Sector Audit Appointments Ltd, and are covered by tripartite agreements between the Council, sponsoring Department and the auditor.

The Council has requested that we undertake a 'reasonable assurance' review, based on the instructions and guidance provided by DCLG, for the Pooled housing capital receipts return (deadline 30 November 2015).

Our work on this is currently in progress.



# APPENDIX

## Reports issued

We issued the following reports in respect of the 2014/15 financial year.


REPORT	DATE
Planning letter	24 February 2014
Audit Plan	27 February 2015
Grant Claims and Returns Certification Report (2013/14)	10 March 2015
Final Audit Report	14 September 2015
Annual Audit Letter	13 October 2015

## Fees update

We reported our original fee proposals in our Audit Plan issued in February 2015. Our fees to date and any variance to the original proposal are shown below.

AUDIT AREA	PROPOSED FEES £	FEES UPDATE £
Code audit fee	90,374	90,374
Certification of housing benefit subsidy claim	11,062	<sup>(1)</sup> 11,062
<b>Total fees for audit services</b>	<b>101,436</b>	<b>101,436</b>
Audit related services		
- Pooled housing capital receipts return	1,500	<sup>(1)</sup> 1,500
Non audit services fees		
- Tax subscription help line service	2,500	2,500

*Note 1 - Our work on the assurance reviews of the grant claims and other returns for 2014/15 is in progress and we will report the findings from this work and the final fees separately.*



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

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