LEWES DISTRICT COUNCIL

ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2018

4 March 2019

EXECUTIVE SUMMARY

PURPOSE OF THE LETTER

This annual audit letter summarises the key issues arising from the work that we have carried out at Lewes District Council for the year ended 31 March 2018.

It is addressed to the Council but is also intended to communicate the key findings 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 National Audit Office's (NAO's) Code of Audit Practice (the Code). Under the Code, we are required to report on:

- Our opinion 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 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

AUDIT CONCLUSIONS

FINANCIAL STATEMENTS

We issued our unmodified opinion on the financial statements on 16 January 2019.

This was after the statutory deadline of 31 July 2018, as the draft Statement of Accounts was not prepared in accordance with the new faster close statutory deadline of 31 May 2018 and we experienced significant difficulties in obtaining sufficient assurance over the valuation of the Council's land and buildings.

We reported our findings to the Audit and Standards Committee on 24 September 2018 and circulated an updated report on 16 January 2019, when we had completed our audit work.

Our audit identified one material presentational misstatement in the notes to the financial statements, which was corrected in the final financial statements.

We also reported five unadjusted misstatements, which were not corrected in the financial statements as they were not material and generally related to accounting estimates. If corrected, these would have reduced the deficit on provision of services by £88,000.

USE OF RESOURCES

We issued our unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 16 January 2019.

The Council's Medium Term Financial Strategy (MTFS) reflects reductions in Government funding and indicates average budget gaps of £441,000 per annum over the four year period to 2020/21. The Council currently has a number of projects in place to generate savings or create additional revenue streams to fill these gaps, including a continuing Joint Transformation Programme with Eastbourne Borough Council for the provision of frontline services and the organisation of back office functions.

We are satisfied that the Council has appropriate arrangements to continue to remain financially sustainable over the period of the MTFS.

FINANCIAL STATEMENTS

OPINION	We issued our unmodified opinion on the Council's financial statements on 16 January 2019. This means we consider the financial statements: • Give a true and fair view of the financial position and its income and expenditure for the year • Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2017/18.

SCOPE OF THE AUDIT

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes an assessment of whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed the reasonableness of significant accounting estimates, and the overall presentation of the financial statements.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing our audit and in evaluating the effect of misstatements.

We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements.

The Council's materiality level was set at £1.8 million. This was determined with reference to a benchmark of gross expenditure (of which it represents 2 per cent) which we consider to be one of the principal considerations for the Council in assessing financial performance.

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Our audit was scoped by obtaining an understanding of the Council and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and the direction of the efforts of the audit team.

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Management override of controls	Under auditing standards, there is a presumed risk of management override of controls as management is in a unique position to manipulate accounting records to prepare fraudulent financial statements. We responded to this risk by: • Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements • Reviewing the accounting estimates for bias and evaluating whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud • Obtaining an understanding of the business rationale for any significant transactions that are outside the normal course of business for the Council or that otherwise appear to be unusual.	No issues were identified by our review of the appropriateness of journal entries or other adjustments made to the financial statements. Our work on accounting estimates did not identify any evidence of management bias. We did not identify any significant transactions that were outside the normal course of business or that otherwise appeared unusual.

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Revenue and expenditure recognition	Under auditing standards there is a presumption that income recognition presents a fraud risk. We also considered the risk of misstatement through the manipulation of expenditure recognition. We responded to this risk by: • Testing an increased sample of fees and charges income to underlying documentation and confirming the existence and accuracy of transactions throughout the year • Testing a sample of fees and charges receipts either side of year end, to confirm that income had been recorded in the correct period and that all income that should have been recorded at year end had been • Testing a sample of expenditure either side of year end, to confirm that expenditure had been recorded in the correct period.	We did not identify any issues in our testing of revenue from fees and charges or receipts either side of year end. We did not identify any issues in our testing of expenditure either side of year end.

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Valuation of non-current assets	Due to the significant value of the Council's property assets, and the high degree of estimation uncertainty, there is a significant risk over the valuation of non-current assets where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year end. We responded to this risk by: • Reviewing the instructions provided to the valuer and the valuer's skills and expertise in order to determine if we could rely on the management expert • Checking that the basis of valuation for assets valued in year was appropriate • Reviewing the reasonableness of assumptions used in the valuations against indices and price movements for classes of assets, and following up on valuation movements that appeared unusual against indices • Estimating the potential movement on classes of assets that were not revalued in year.	The Council engaged an external valuer to carry out a year end desktop review on all property categories. From our review of the instructions provided to the valuer, we noted some instances where out of date information had been provided to the valuer. Our enquiries of the valuer also identified a number of issues. These points resulted in the issue of revised valuation reports and indicated a net overstatement of other land and buildings by £235,000, in respect of four properties. This was not adjusted in the financial statements as the difference was not material. We were satisfied that overall we could reply on the work of the valuer as a management expert. We also identified an overstatement of surplus assets by £85,000 when comparing the value in the fixed asset register and the accounts to the valuer's report. We confirmed that the basis of valuation for assets valued in year was appropriate. From our review and enquiries made, we were satisfied that property values were not materially misstated at year end, although our comparison to benchmarking indices indicated that other land and buildings were stated at a value that was £1.330 million below what we estimated as a reasonable range for the value. This was primarily due to the Council not recognising price movements since the last formal valuation in previous years. This was not adjusted for in the financial statements as the difference was not material.

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Valuation of pension liability	There is a risk the membership data and cash flows provided to the actuary at 31 March may not be correct, or the valuation uses inappropriate assumptions to value the liability. This is a significant risk due to the higher estimation uncertainty arising from the range of assumptions available to value the pension liability. We responded to this risk by: • Agreeing the disclosures to information provided by the actuary • Reviewing the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data • Obtaining assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary • Checking whether any significant changes in membership data had been communicated to the actuary.	The majority of actuarial assumptions remained consistent between the years, other than an increase in the discount rate that reduced the liability by £1.190 million. Our review of assumptions used to estimate the value of the pension liability concluded that they were reasonable. We used the PwC consulting actuary report for reviewing the methodology of the actuary and assessing the reasonableness of the assumptions. We obtained assurance from the pension fund auditor over the controls at the administering authority for providing accurate information on scheme members for the 2016 triennial review and information for 2017/18.

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Recharges between the Council and Eastbourne Borough Council	Under the Joint Transformation Programme with Eastbourne Borough Council, the vast majority of Lewes' employees transferred onto Eastbourne's payroll during 2016/17 whilst Legal Services remain within Lewes. There are recharging arrangements in place between the councils. Given that this is the first full year of these recharge arrangements, there is a risk over the accuracy of expenditure in the Comprehensive Income and Expenditure Statement (CIES). There is also a risk that redundancies resulting from the Joint Transformation Programme may not be appropriately accounted for and disclosed in line with the Code of Practice on Local Authority Accounting 2017/18. We responded to this risk by: • Reviewing the reasonableness and accuracy of the recharge arrangements in place between the councils, seeking assurance that the Council's share of the costs is in line with approved recharge arrangements • Reviewing the completeness and accuracy of redundancy accruals and provisions and exit package disclosures.	We confirmed that there are appropriate arrangements in place to keep track of amounts that need to be recharged between the councils on a monthly basis. For the service lines that were set up as shared service arrangements in phase one of the Joint Transformation Programme, there are set percentages in place for the amounts recharged, which are between 40% and 50% per service. As further shared services and greater integration between the councils' staff developed during the year, Eastbourne moved away from recharging Lewes 100% of the hosted payroll cost and is now allocating payroll and some non-payroll costs between the councils on a shared service basis. Our testing confirmed that costs are split between 40% and 50%, dependent on the service line. Our audit of exit packages did not identify any issues.

USE OF RESOURCES

CONCLUSION	We issued our unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 16 January 2019.
	This means we consider that the Council has proper arrangements to: • Ensure it took properly informed decisions • Deploy resources to achieve planned and sustainable outcomes for taxpayers and local people • Work with partners and other third parties.

SCOPE OF THE AUDIT

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources.

As part of reaching our overall conclusion we consider the following sub criteria in our work: informed decision making, sustainable resource deployment, and working with partners and other third parties.

OUR ASSESSMENT OF SIGNIFICANT RISKS

Our audit was scoped by our cumulative knowledge brought forward from previous audits, relevant findings from work undertaken in support of our opinion on the financial statements, reports from the Council including internal audit, information disclosed or available to support the annual governance statement, and information available from the risk registers and supporting arrangements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and the direction of the efforts of the audit team.

USE OF RESOURCES

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Financial sustainability	The update to the MTFS to 2020/21 forecasts further reductions in Government core grant funding and annual inflationary and pay award pressures. The MTFS approved by Cabinet in July 2018 indicated budget gaps of £1.034 million in 2018/19, £585,000 in 2019/20, £126,000 in 2020/21 and £19,000 in 2021/22. This means an average level of required savings of £441,000 per annum over the four year period. The Council currently has a number of major development / transformational programmes in place to facilitate savings or create additional revenue streams in the medium term, to close the budget gaps. We identified a risk that the MTFS does not adequately take account of the investment costs and savings associated with these projects, and that the Council does not have appropriate arrangements to monitor progress in delivering benefits from these projects against the MTFS. We responded to this risk by: • Assessing the effectiveness of the Council's arrangements for ensuring sustainable finances by reviewing current year outcomes and the Council's reserves position • Reviewing the assumptions used in the MTFS for investment costs and savings associated with its major development / transformational programmes • Reviewing the Council's arrangements for monitoring the progress of these programmes against budgeted savings targets.	The Council budgeted to spend £11.148 million on General Fund services in 2017/18 and to make a net transfer to earmarked reserves of £704,000. The actual cost of services (before technical accounting adjustments) in 2017/18 was £11.969 million, an overspend of £821,000. This was largely due to additional one-off costs associated with the Joint Transformation Programme, including temporary staff pending transition. The actual net transfer to reserves was £103,000 less than budgeted. Overall, the general fund balance increased by £31,000, to £2.093 million at 31 March 2018. The general fund balance remains above the minimum level of £1 million recommended by the Section 151 Officer. The total earmarked general fund reserves balance at 31 March 2018 fell by £1.359 million, to £8.737 million. The decrease in earmarked reserves largely related to £2.257 million use of strategic reserves set aside to support the Joint Transformation Programme. The Council achieved £341,000 of its budgeted savings target of £641,000 for the year. A key component of this is savings from the Joint Transformation Programme with Eastbourne Borough Council, although this under-achieved against the budget. The shortfall is being made up during 2018/19. The required savings for 2018/19 relate largely to new income streams and the Joint Transformation Programme. Other development programmes currently in place include the North Street Quarter, Newhaven Enterprise Zone, joint housing investment partnership with Eastbourne Borough Council and joint venture for energy and sustainability. We are satisfied that the MTFS takes account of the investment costs associated with the Council's major transformational and development projects. When these schemes are further established, management should be in a better place to forecast all of the associated savings and revenue contributions going forward.

APPENDIX

REPORTS ISSUED

We issued the following reports since our previous annual audit letter.

REPORT	DATE
2017/18 audit plan	February 2018
2017/18 audit completion report - final	September 2018
2016/17 grant claims and returns certification report	November 2018
2017/18 audit completion report - final	January 2019

FEES

AUDIT AREA	FINAL FEES £	PLANNED FEES £
Audit – PSAA scale fee (1)	61,418	46,418
Housing benefits subsidy certification fee(2)	25,598	15,598
Total audit and certification fees	TBC	**62,016**
Fees for audit related services:		
Pooling of housing capital receipts return(3)	2,000	1,500
Total fees	TBC	**63,516**

(1) We incurred additional cost in our work on the 2017/18 audit due to difficulties and delays in obtaining explanations from the valuer and a number of errors identified in non-current assets. We have therefore agreed an additional fee of £15,000 with management. This is subject to approval by Public Sector Audit Appointments Limited.

(2) Our audit of the 2017/18 housing benefits subsidy claim is in progress. A significant level of misstatements were identified in the audit of the 2016/17 claim, which has necessitated additional audit work on the 2017/18 claim. Additional fees will be agreed with management when the audit is complete, however we have estimated that the fee will be at similar level to the revised fee agreed with management for 2016/17 (£25,598). This is subject to approval by Public Sector Audit Appointments Limited.

(3) We agreed with management an additional fee of £500 for our certification of the pooled housing capital receipts return due to a change in MHCLG’s requirements this year.

FOR MORE INFORMATION:

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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