



Accountants &
business advisers

Lewes District Council

Annual Audit Letter 2008/09

Report to Members

November 2009



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Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party

1 Executive summary

- 1.1 This Annual Audit Letter (Letter) summarises the key issues arising from the work we have carried out during the year and highlights the key findings that we consider should be addressed by the Council.
- 1.2 We have already reported the detailed findings from our audit work to those charged with governance in the reports documented in the Appendix to this report. We have no additional recommendations for the Council at this time.

Key findings

- 1.3 A summary of key conclusions is included in the table below:

Area	Conclusion
Accounts	We issued an unqualified opinion on the financial statements.
Value for money conclusion	We issued an unqualified value for money conclusion.
Use of resources assessment	<p>Our scored judgements for the use of resources assessment were:</p> <ul style="list-style-type: none"> • 3 out of 4 for managing finances: performing well • 3 out of 4 for governing the business: performing well • 2 out of 4 for managing resources: performing adequately <p>Our overall assessment is that the Council performs well in its use of resources (a score of 3 out of 4).</p>

- 1.4 To further improve its use of resources the Council should continue to focus on:
- seeking opportunities for achieving better value for money through implementing a rolling programme of service reviews
 - carrying out systematic unit cost and benchmarking exercises to identify areas for further cost reductions
 - updating workforce plans to ensure a corporate strategic direction for workforce planning over the medium term
 - obtaining the 'achieving level' of the Government's Equality Framework.

Acknowledgement

- 1.5 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.

2 Introduction

About the Council

- 2.1 Lewes District Council is located in the west of East Sussex and covers an area of 292 square kilometres, much of which forms part of the Sussex Downs Area of Outstanding Natural Beauty. Around half, including the historic town of Lewes, is to be included in the South Downs National Park from April 2010. The Council serves a population of 94,500, with most people living in the urban areas of Lewes, Seaford, Newhaven, Peacehaven and Telscombe.
- 2.2 The Council spends about £67 million annually. This includes £31 million on housing and council tax benefits and £23 million on services such as refuse collection, recycling and street cleaning; planning and development control; housing and council tax benefits; and community services such as maintaining parks and open spaces. About £13 million of the total budget is spent on maintaining the Council's 3,300 dwellings.

The purpose of this Letter

- 2.3 The purpose of this Letter is to summarise the key issues arising from the work that we have carried out during the year. Although this Letter is addressed to Members, it is also intended to communicate the significant issues we have identified, in an accessible format, to key external stakeholders, including members of the public. The Letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website at www.lewes.gov.uk.

Responsibilities of the auditors and the Council

- 2.4 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.
- 2.5 As the Council's 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.

The scope of our work

- 2.6 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 financial statements
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

3 Key findings

Accounts

- 3.1 We issued an unqualified opinion on the Council's financial statements on 21 September 2009. Our opinion confirms that the financial statements present fairly the financial position of the Council as at 31 March 2009 and its income and expenditure for the year then ended.
- 3.2 We did not identify any significant issues from our review of the Council's accounting and internal control systems that could materially impact on the financial statements.

Key issues arising from the audit

- 3.3 The Council overstated its long term borrowings by £0.75 million as a result of restating the balance to fair value, instead of carrying the balance at amortised cost as required by the Council's accounting policies. This misstatement was adjusted in the final financial statements. The amendment had no impact on the closing General Fund balance and therefore no impact on council tax payers.
- 3.4 The Council applied guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in May 2009 in estimating an impairment charge of £0.2 million on its Icelandic Bank cash deposit of £1 million. The calculation assumed that 95 percent of the investment would be recovered. However, further guidance issued by CIPFA in September 2009 indicated a more likely recoverability rate of 83 percent, and therefore an impairment charge of £0.3 million. The Council disclosed this issue in a Post Balance Sheet Events note, although the Balance Sheet and Income and Expenditure Account were not amended to recognise a higher impairment charge as the difference was not material in the context of the overall accounts and would have no impact on the closing General Fund balance. We do not believe the level of provision, or the maximum likely exposure, is material to the financial statements of the Council, which has General Fund and earmarked reserve balances of £9.7 million as at 31 March 2009.

Use of resources

- 3.5 The Code requires us to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources. This is known as the value for money conclusion and draws on the results of specific risk based audit work as well as the results of our use of resources assessment.

Specific risk-based work

- 3.6 As part of our risk-based audit approach, we reviewed the Council's role in the Local Area Agreement (LAA) and joint working arrangements with partners. We are satisfied that there are satisfactory arrangements in place for working towards achievement of joint LAA targets and improvements in data collection and reporting processes for LAA performance information have been made during the year.

Use of resources assessment

- 3.7 We are required to assess how well local authorities manage and use their financial resources by providing scored judgements on the Council's arrangements in three specific areas. Our assessment forms part of the Audit Commission's new Comprehensive Area Assessment (CAA) for 2008/09 and is not comparable with 2007/08 or earlier years' scores.

3.8 Our scores for each key line of enquiry are shown below:

Theme	2008/09
Managing Finances	
• Planning for financial health	3
• Understanding costs and achieving efficiencies	2
• Financial reporting	3
Theme score	3
Governing the business	
• Commissioning and procurement	3
• Use of information	3
• Good governance	3
• Risk management and internal control	3
Theme score	3
Managing resources	
• Natural resources	Not scored in 2008/09
• Strategic asset management	Not scored in 2008/09
• Workforce	2
Theme score	2

3.9 We concluded that the Council performs well in managing its finances and governing the business and there are adequate arrangements in place for managing resources.

Managing finances

3.10 The Council has established effective arrangements for integration of financial and corporate planning processes. The annual budget is comprehensive and underpins achievement of corporate priorities and the medium term financial strategy. Good financial planning has assisted the Council in achieving many of its performance targets and delivering strategic priority outcomes within planned resources.

3.11 The Council understands its significant cost and income drivers and actively seeks opportunities to achieve efficiencies where possible, resulting in £0.3 million of cost savings during the year. In line with recommendations we have made to the Council, there are plans in place to implement a defined programme of service reviews and systematic benchmarking exercises going forward. Implementation of these plans will represent a material step to ensuring that the Council is obtaining the best value for money from its services.

3.12 There are sound processes for in year monitoring of the financial position, producing fit for purpose financial reports and preparing the financial statements. The Council achieved a surplus of £1.4 million for the year against the revised budget for its General Fund net cost of services, which was mainly due to a few unexpected 'wins' towards the end of the year. An analysis of the key variances is included in the Foreword to the financial statements.

Governing the business

3.13 The Council performs well in involving local people and partners in commissioning and has a clear vision of the needs of the community. It has a good understanding of the supply market and proactively seeks opportunities for efficiencies through joint procurement and framework arrangements. The Council has a number of contracts with local organisations and it also maintains a strong focus on the environmental implications of its procurement decisions.

- 3.14 The Council uses data effectively to manage performance and there are robust processes for ensuring good data quality. The Council has increased its data security arrangements in the year and signed up to Government Connect.
- 3.15 There is a well established governance framework, which also covers partnership working, and there are processes to ensure that a strong ethics culture is maintained.
- 3.16 Effective risk management in the Council is well embedded and there are sound systems of internal control. Proactive counter fraud and corruption activities have resulted in a high level of prosecutions in respect of housing and council tax benefits and fly-tipping in the district.

Managing resources

- 3.17 The Council has adequate arrangements in place for managing its workforce and it is committed to maintaining a productive and skilled workforce, engaging effectively with staff and being a good employer. Strategic workforce plans are currently being updated. The Council has achieved level 2 of the equalities standard and is working towards the 'achieving level' of the Government's Equality Framework.
- 3.18 To further improve its use of resources the Council should continue to focus on:
- seeking opportunities for achieving better value for money through implementing a rolling programme of service reviews
 - carrying out systematic unit cost and benchmarking exercises to identify areas for further cost reductions
 - updating workforce plans to ensure a corporate strategic direction for workforce planning over the medium term
 - obtaining the 'achieving level' of the Government's Equality Framework.
- 3.19 The results of our use of resources assessment have been shared with the Audit Commission as part of the integrated approach to developing CAA. The results of CAA will be reported separately by the Audit Commission.

Value for money conclusion

- 3.20 Taking into account our work on use of resources, we have concluded that adequate arrangements are in place to secure value for money and have provided an unqualified value for money conclusion for the year ended 31 March 2009.

Grants

- 3.21 The Council's arrangements for preparing grant claims and other returns to the Government remain effective. No amendments were required to individual claims and we confirmed expenditure was incurred for the purposes intended by the Government's relevant grant paying bodies.

Emerging issues

Current economic climate

- 3.22 In view of the potential impact of the recession on property values the Council commissioned its external valuers to carry out reviews of asset values during 2008/09. The Council's asset values were adjusted downward by £43.5 million as a result of this review.

- 3.23 In response to the continued economic downturn, the Council also carried out a review of its position and the impact of the recession on all aspects of its operations, including the security of its investments, changes in income and extra demand for Council services such as housing and council tax benefits. It is closely monitoring trends in income and expenditure in these areas and is taking action to mitigate the risks where possible.

Treasury management

- 3.24 Following the collapse of the Icelandic banks in October 2008 the Audit Commission conducted a study to examine treasury management arrangements in local authorities. The resulting report *Risk and Return* was published in March 2009 and in this report the Audit Commission committed to asking auditors to follow up the lessons from the report as part of their use of resources work.
- 3.25 We concluded from this work that the Council has adequate treasury management arrangements. Action has been taken to strengthen processes in light of the collapse of the Icelandic banks. The Council has tightened its investment strategy and taken action to extend its knowledge of financial institutions and its reporting of investment activity to members.

Members' allowances

- 3.26 The Local Authorities (Members' Allowances) (England) Regulations 2003 (members' allowances regulations) include a requirement for councils to publish annually amounts paid to each member for different types of allowances. As in previous years and in accordance with the SORP, the Council included in a note to the accounts the total amounts paid to members during 2008/09 and publicised more detailed disclosures on its website at <http://www.lewes.gov.uk>. It is not a requirement of the members' allowances regulations to disclose amounts paid to each member within the financial statements, however in light of the recent publicity surrounding MPs' expenses, the Council may wish to make such disclosures more transparent by including them in the financial statements in future.
- 3.27 Internal Audit carried out a review of members' allowances and expenses and concluded that controls over these payments are operating satisfactorily in all significant respects.

International financial reporting standards

- 3.28 International Financial Reporting Standards (IFRS) will be adopted in local government from 2010/11 and require transitional arrangements to be put in place by the Council. The Audit Commission is undertaking a national study on the implementation of IFRS in local government to assess the progress being made by authorities towards preparing IFRS-based accounts. As part of this study and our use of resources work, we have reviewed the Council's progress in this area. We are satisfied that the Council is taking appropriate steps to implement IFRS, including employing additional resource to support the exercise. Work remains in progress to identify all areas of the accounts that require restatement and to calculate the resultant effect on the accounts.

Appendix: Reports issued in relation to the 2008/09 audit

Report	Date Issued
Annual audit plan	September 2008
Annual governance report	September 2009
Use of resources assessment	November 2009