

EAST SUSSEX COUNTY COUNCIL

Annual Audit Letter 2012/13

24 October 2013

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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

BDO LLP is the appointed auditor under the Audit Commission Act 1998, other than in respect of the requirement to be satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. KPMG LLP has been separately appointed to discharge this responsibility.

External auditors have a broad remit covering financial and governance matters. Auditors target their work on areas which involve significant amounts of public money and on the basis of their assessment of the key risks to the Council achieving its objectives.

260 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. As auditors, we have considered how the Council is fulfilling these responsibilities.

Scope of the audit

The main responsibility as appointed auditors 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, auditors 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	<p>We issued an unqualified true and fair opinion on the Council's financial statements on 30 September 2013.</p> <p>A small number of unadjusted audit differences were not corrected in the final published financial statements that would reduce the deficit for the year, increase the general fund balance and increase net assets by £2.167 million.</p> <p>We noted a number of areas where deficiencies in internal controls should be improved or where the control environment could be strengthened, particularly journal authorisation, authorisation of staff overtime and expense claims and segregation of duties.</p>
2	<p>We issued an unqualified true and fair opinion on the pension fund financial statements on 30 September 2013.</p> <p>A small number of unadjusted audit differences were not corrected in the final published financial statements that would increase the fund account surplus and closing net assets of the scheme by £3.5 million.</p> <p>We noted that there is a weakness in internal controls where independent review of journals is not required for amounts below £1 million.</p>
	USE OF RESOURCES
3	<p>KPMG LLP issued an unqualified value for money conclusion on 30 September 2013.</p>
	OTHER MATTERS
4	<p>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 published guidance.</p> <p>We issued an unqualified opinion in respect of the WGA return on 4 October which confirmed that this was consistent with the audited financial statements.</p> <p>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 January 2014.</p>

COUNCIL FINANCIAL STATEMENTS

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OPINION

We issued an unqualified true and fair opinion on the Council's financial statements on 30 September 2013.

Financial statements

As part of our planning for the audit, we prepared a detailed document request which outlined the information that we would require to complete the audit. The Council provided us with files of comprehensive working papers on 15 July 2013, and additional working papers in response to queries were obtained during the course of the audit.

Changes to the Code of Practice on Local Authority Accounting this year now requires that local authorities include provisioning of future costs for closed landfill sites, and the Council has correctly applied these changes by including an additional provision of £10.2 million at 31 March 2013.

The following misstatements were identified and corrected during the audit:

- amendments to the cash flow statement and associated notes for capital creditors
- disclosure of the unwinding of the discount on the closed landfill sites provision
- correction to the restated opening balances in the Movement in Reserves Statement and inclusion of a prior period adjustment note
- reclassification of £1.3 million from long term to short term borrowing for PWLB loans
- correct disclosure of revaluation increases (reversal of previous losses) in the property, plant and equipment note
- correction to the 'amounts reported for resource allocation decisions' note to agree to the Comprehensive Income and Expenditure Statement and to departmental outturn
- correction to amounts disclosed for property, plant and equipment and government grants and contributions in the capital expenditure and capital financing note.

A small number of unadjusted audit differences were identified that were not corrected in the final published financial statements:

- adult social care accrual for residential care costs overstated by £1.833 million
- learning disability residential accommodation costs accrual overstated by £797,000
- income in advance and amounts receivable both overstated by £1.745 million
- VAT debtor overstated by £463,000 as the calculation included VAT returns for the last quarter of 2011/12 rather than 2012/13

- internal recharges of £850,000 between departments has been included in both interest payable and interest receivable and should be netted off.

The net effect of adjusting for these differences would be to reduce the deficit for the year, increase the general fund balance and increase net assets by £2.167 million. Management considered that these uncorrected misstatements did not have a material impact on the financial statements, either individually or in aggregate, and the Governance Committee accepted the assertion that the misstatements need not be corrected for this reason.

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 journals as the Council does not require independent review or authorisation of journals below £1 million and no authorisation is required for treasury management and capital finance entries that are in excess of £1 million. We have raised this same issue in previous years. Good practice would be to require independent authorisation of all manual journals created and posted to the SAP nominal ledger.

We have also noted the following areas where we identified instances of non-compliance with the Council's internal controls:

- authorisation of staff overtime and expense claims
- segregation of duties for income invoicing and receipting functions.

The £1 million journal threshold was considered by management in the prior year and it concluded that it was not necessary to amend the Council's policy and management is satisfied that there are appropriate compensating budgetary controls in place to detect errors in journal postings.

We were able to rely on the work of internal audit for those areas that impacted on our understanding and review of the Council's internal controls for producing the financial statements.

Financial statements

As part of our planning for the audit, we prepared a detailed document request which outlined the information that we would require to complete the audit. The Council provided us with files of comprehensive working papers on 1 July 2013.

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

- unquoted overseas equities of £127 million were incorrectly classified as UK equities
- UK non-government fixed interest securities of £157 million were incorrectly shown as public sector fixed interest securities.

A small number of unadjusted audit differences were identified that were not corrected in the final published financial statements:

- updated valuations to 31 March 2013 were provided from two fund managers that included further investment gains of £3.3 million in the final quarter
- contributions receivable from two organisations totalling £229,000 had not been included as income
- VAT receivable of £606,000 had been incorrectly netted off with sundry creditors.

The impact of correcting these items would increase the fund account surplus and closing net assets of the scheme by £3.5 million. Management considered that these uncorrected misstatements did not have a material impact on the financial statements, either individually or in aggregate, and the Governance Committee accepted the assertion that the misstatements need not be corrected for this reason.

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

Internal controls

We noted one area where deficiencies in internal controls should be improved or where the control environment could be strengthened:

- the Council does not require independent review or authorisation of journals below £1 million.

The £1 million journal threshold was considered by management in the prior year and it concluded that it was not necessary to amend the Council's policy and management is satisfied that there are appropriate compensating budgetary controls in place to detect errors in journal postings.

We were able to rely on the work of internal audit for those areas that impacted on our understanding and review of the pension fund's internal controls for producing the financial statements.

USE OF RESOURCES

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CONCLUSION

KPMG LLP issued an unqualified value for money conclusion on 30 September 2013.

The principal work in arriving at the value for money conclusion requires 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.

BDO LLP is the appointed auditor under the Audit Commission Act 1998, other than in respect of the requirement to be satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. KPMG LLP has been separately appointed by the Audit Commission to discharge this responsibility.

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 submitted its initial Whole of Government Accounts (WGA) return for audit on 30 August 2013 and a revised return provided on 23 September to incorporate amendments to the final version of the financial statements.

Our review identified a small number of presentational misstatements with the updated draft return and a final corrected return was provided to us on 3 October. We issued an unqualified opinion in respect of the WGA return on 4 October which confirmed that this was consistent with the audited financial statements.

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 three returns amounting to almost £27 million. Our report noted that for each return we were able to submit the return without qualification although in one case the claim was amended in respect of Teachers Pensions although this did not impact on the overall amount payable to the national teachers pension scheme.

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 January 2014.

APPENDIX

Reports issued

BDO LLP and KPMG LLP have issued the following reports in respect of the 2012/13 financial year.

REPORT	DATE
PKF (UK) LLP Planning letter	November 2012
PKF (UK) LLP Grant claims and returns certification 2011/12	February 2013
PKF (UK) LLP Council Audit Plan	February 2013
PKF (UK) LLP Pension Fund Audit Plan	February 2013
BDO LLP Final Audit Report on the Council's Statement of Accounts	September 2013
BDO LLP Final Audit Report on the pension fund	September 2013
KPMG LLP Value for Money Conclusion	September 2013
BDO LLP Annual Audit Letter	October 2013

The Planning letter, Council Audit Plan and Pension Fund Audit Plan were issued by PKF (UK) LLP. PKF (UK) LLP and BDO LLP merged on 28 March 2013 and reports issued after this date adopted the name of the merged firm, BDO LLP.

Fees update

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

AUDIT AREA	PROPOSED FEES £	BDP LLP FEES UPDATE £	KPMG LLP FEES UPDATE as advised to us £
Scale fee - Council	112,479	(note 1) 103,745	8,734
Scale fee - pension fund	26,607	(note 1) 26,607	-
Certification work fee	6,350	(note 2) 2,800	-
Total fees for audit services	145,436	133,152	8,734
Non audit fees			
- Teacher training funding	-	(note 2) TBA	-
- Trust funds assurance review	1,000	1,000	

Scale fees ¹

We are currently discussing with management the final outturn costs for the audit.

Certification work fees ²

The proposed certification fees will be adjusted as follows:

- increased fees £450 to include the report on certification work into the overall costs
- we expect to audit an additional Local Transport Plan Major Projects return this year for the grant funding of the Bexhill - Hastings Link Road and fees will be agreed once we have agreed the scope of this work
- teacher training funding no longer falls within the scope of the Certification work fee although we have been asked to provide an assurance return to the funding Department which will be classified as non-audit fees.

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.

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.

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