



CASTLE POINT BOROUGH COUNCIL

Annual Audit Letter 2012/13

October 2013

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

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.

As the 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.

Scope of the audit

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 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 and whether we have exercised our statutory powers under the Audit Commission Act 1998 in any matter.

Our work on the audit of the grant claims and other returns is in progress and we will report the findings from this work separately.

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 financial statements on 25 September 2013.</p> <p>No material misstatements were identified during the audit.</p> <p>We noted two areas where significant deficiencies in internal controls should be addressed:</p> <ul style="list-style-type: none">• lack of segregation of duties between invoicing and receipting functions• non-compliance with empty property relief visiting procedures.
	USE OF RESOURCES
2	<p>We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We issued an unqualified value for money conclusion on 25 September 2013.</p>
	OTHER MATTERS
3	<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 "Delivering Good Governance in Local Government" (CIPFA / SOLACE).</p> <p>The Council's WGA is below the threshold for full assurance review, and we completed a short-form assurance review which confirmed that the "property, plant and equipment carrying amount at 31 March 2013" and the "net funded pension balance" was consistent with the audited financial statements.</p>
	GRANT CLAIMS AND RETURNS CERTIFICATION
4	<p>The 2011/12 Housing and Council Tax Subsidy claim was subject to qualification. The National Non-Domestic Rates and Housing Revenue Account Subsidy returns were certified without qualification.</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>

STATEMENT OF ACCOUNTS

1

OPINION

We issued an unqualified true and fair opinion on the financial statements on 25 September 2013.

Financial statements

The following misstatements were identified and corrected during the audit:

- reclassification of the Waterside Farm leisure centre retention of £130,000 to long term creditors
- a number of disclosures and presentation amendments to the final audited financial statements.

Nine misstatements were identified that were not corrected in the audited and published financial statements:

- capital additions to council dwellings of £89,000 that should have been expensed
- valuation of assets of a specialist nature had not been valued on an instant build basis and therefore the assets were overstated by £230,000
- repossession prevention fund of £30,000 that should have been recognised in full as no conditions were attached to the grant
- Thames Gateway South Essex Partnership (TGSEP) and Housing Group (TGSEHG) balances amounting to £157,000 which are incorrectly included in the Council's financial statements as the Council acts as the accounting body
- misclassification between long term and short term creditors resulting in an extrapolated (estimated) error of £356,000
- netting of debtors and creditors resulted in an extrapolated (estimated) error of £19,000
- expenditure had been accounted for in the incorrect year within the Housing Revenue Account and the extrapolated (estimated) error is an overstatement of expenditure of £67,000
- expenditure had been accrued within the current financial year and no prepayment had been recognised. The extrapolated (estimated) error was £150,603
- overstatement of the bad debt provision of £29,000.

The overall impact of correcting for these remaining misstatements would result in the Council reporting a £157,000 lower deficit for the year. Management considered that these uncorrected misstatements did not have a material impact on the financial statements, either individually or in aggregate, and the Audit Committee accepted their 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 two areas where significant deficiencies in internal controls should be addressed:

- lack of segregation of duties between invoicing and receipting functions
- non-compliance with empty property relief visiting procedures

Management has agreed to review and strengthen these internal controls. We consider that these deficiencies did not have a material impact on our opinion on the financial statements.

USE OF RESOURCES

2

CONCLUSION

We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We issued an unqualified value for money conclusion on 25 September 2013.

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.

We did not identify any significant risks for our value for money conclusion from our risk assessment but we considered within the conclusion criteria the impact of the government funding reductions, localisation of council tax and national non-domestic rates on capacity and the medium term financial forecast, and delivery of the Housing Revenue Account (HRA) business plan following HRA reform. We also updated our knowledge of the Council's governance arrangements, financial, performance and risk management arrangements and reviewed the Audit Commission's financial ratios data and value for money tool and discussed the findings with management.

Financial resilience

The draft 2012/13 financial statements report that the Council has realised a deficit of £770,000 but, after adjustments between accounting and funding basis, has recognised an increase of £459,000 in its usable reserves (comprising the general fund, earmarked reserves, housing revenue account and usable capital reserves) when compared to the closing balances in 2011/12.

The Council has set a balanced budget for 2013/14 without the use of reserves. In addition, certain earmarked reserves were also budgeted to be drawn down in 2013/14 toward the funding of specific projects, such as the completion of the Waterside Farm Sports Centre improvements. It may be necessary for the Council to utilise its general reserves if it is unable to achieve the necessary savings required to ensure a balanced budget in future years. However, the forecast general reserves at the end of 2013/14 are £3.2m, which is still notably higher than the Council's policy on the minimum level of reserves of £1.1m.

The Council identified a budget gap of £772,000 for 2014/15 in the most recent MTFs approved in February 2013, where savings were required to be identified. To address this gap, and support the medium term projections, a £1m efficiency savings target has been set. This target is to be achieved through the on-going efficiency work programme. Since the budget was set significant progress has been made against this target, and regular internal reports on the programme are submitted to the Executive Management Team. The Council has a track record of delivery against savings targets and realised over £1m of cashable savings in 2012/13.

Challenging economy - efficiency - effectiveness

The Council has an on-going efficiency agenda which continues to identify savings. This has identified a number of new projects which are due to begin in 2013/14.

The Council makes use of consultation, option appraisal and partnership working to assist in achievement of savings and delivery of improved services. Benchmarking is not utilised by the Council in this process as limited value was gained from participating in various groups. The challenge comes through the efficiency work programme. Examples of services that have been reviewed are leisure, housing and environmental health where costs have been reviewed in detail.

The Council have introduced a 'How it works' document to ensure its key business processes are operating consistently across the Council. The Council are also in the process of updating their corporate business plan, with a revised set of corporate priorities. Alongside this, the directorate and service planning processes have been streamlined, driven by simpler template plans to be completed by managers. The revised corporate plan and priorities will need to drive future spending plans and performance indicators.

In 2012/13, as previously mentioned, the outturn position was favourable compared to the forecast budget outturn position. Wider, non-financial performance is monitored by Cabinet on a quarterly basis where current progress is challenged and monitored. Key achievements in 2012/13 were the Olympic mountain bike event at Hadleigh Farm, continued improvement in the recycling rates and first contact reported performance indicators. The challenge for the Council continues to be the delivery of affordable housing and providing additional housing.

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 is below the threshold for full assurance review, and we completed a short-form assurance review which confirmed that the “property, plant and equipment carrying amount at 31 March 2013” and the “net funded pension balance” was consistent with the audited financial statements.

GRANT CLAIMS AND RETURNS CERTIFICATION

4

REPORT BY EXCEPTION

We have no other matters to report.

Summary

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 over £45 million.

Our report noted that the Housing and Council Tax Benefit Subsidy claim was qualified and required amendment prior to certification. Seven sets of additional testing had to be undertaken. Issues arising were in relation to the classification of overpayments and errors made in processing claimant benefits.

Additional work was undertaken by the Council to address the findings of the qualification letter, the updated conclusions were reported to the Department for Work and Pensions in March 2013.

The National Non-Domestic Rates return was certified without qualification. Although an amendment was made as a result of our audit this had no impact on the contribution to the national pool calculated in the return.

The Housing Subsidy return was certified without qualification or amendment.

To date, we have certified two returns for 2012/13, the National Non-Domestic rate return and the Pooled capital receipts return. Both claims were unqualified and were certified without amendment. 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

Since our last Annual Audit Letter we have issued the following reports to those charged with governance:

REPORT	DATE
Audit Plan	December 2012
Grant Claims and Returns Certification Report (2011/12)	February 2013
Final Audit Report	September 2013
Annual Audit Letter	October 2013



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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