



CASTLE POINT BOROUGH COUNCIL

Annual Audit Letter 2013/14

OCTOBER 2014

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 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, 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
14 October 2014

STATEMENT OF ACCOUNTS

1

We issued an unqualified true and fair opinion on the financial statements on 29 September 2014.
No material misstatements were identified during the course of the audit.
We did not identify any significant deficiencies in internal controls during the course of the audit.

USE OF RESOURCES

2

We were satisfied that, in all significant respects, the Council had 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 29 September 2014.

OTHER MATTERS

3

We were satisfied that the Annual Governance Statement was not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complied with Delivering Good Governance in Local Government (CIPFA / SOLACE).
The Council's WGA was below the threshold for review and therefore we were only required to review the total amounts included in the Data Collection Tool for property, plant and equipment and for the net pension liability. We confirm that these reported totals were consistent with the audited financial statements.

GRANT CLAIMS AND RETURNS CERTIFICATION

4

We have completed our review of the Housing Pooled Capital Receipts return and have no matters to report. Our work on the Housing Benefits subsidy claim for 2013/14 is in progress.
We will report the findings from this work in January 2015.

STATEMENT OF ACCOUNTS

1

OPINION

We issued an unqualified true and fair opinion on the financial statements on 29 September 2013.

Financial performance

The Council reported a surplus on the provision of services of £4.71 million.

After adjusting for items in the Movement in Reserves Statement, the Council reported a surplus on the General Fund of £0.6 million before transfers from earmarked revenue reserves of £208,000. The HRA reported a surplus of £1.45 million after adjusting for items in the Movement in Reserves Statement.

Financial statements

As part of our planning for the audit, we prepared a detailed document request which outlined the information we would require to complete the audit. As in previous years, a comprehensive file of high quality audit working papers was provided to us on the first day of the audit. Queries were responded to on a timely basis.

There were 2 current year unadjusted audit differences and 3 prior year unadjusted audit differences which impact on the current year and which would decrease the surplus on the provision of services by £269,000 to £4.4 million (from £4.7 million) if adjusted.

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

Significant judgements and estimates

Fair value of land and buildings

The calculation of the fair value of land and buildings is subject to a high level of estimation uncertainty that requires the exercise of judgement in determining the appropriate assumptions underlying the valuation. The Council engaged Wilks, Head and Eve as a management expert to provide information on asset values and market trends.

Through our audit work and testing, we were satisfied the value of assets reported in the published financial statements are materially correct.

One issue was identified during this work in relation to the valuation of assets of a specialist nature. The Code requires that where there is no market value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used to estimate fair value. The Code also requires that the 'instant build' approach should be applied when

valuing assets on a DRC basis, an approach which excludes finance costs from the valuation.

The Council has correctly applied the instant build valuation to Waterside Farm at the year end, however, from review of the asset register, Runnymede Pool and a small number of other assets that were revalued pre 2013 have not been included in the balance sheet on an instant build basis when they should have been. An unadjusted audit difference of £232,000 was reported and we were satisfied that the impact was not material to the financial statements.

Actuarial assumptions

The actuarial assumptions used for pension valuations are subject to a high degree of estimation uncertainty that requires the exercise of judgement in determining the appropriate assumptions underlying the valuation.

Essex County Council Pension Fund engaged Barnett Waddingham as a management expert. We are satisfied that the actuary was independent of the Council, objective and experienced in undertaking this work. Our review of the assumptions applied in estimating the pension liability concluded that these are not significantly different from those being applied by the actuaries of other local authorities.

Internal controls

We did not identify any significant deficiencies in internal control.

USE OF RESOURCES

2

CONCLUSION

We issued an unqualified value for money conclusion on 29 September 2014.

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 identified one significant risk in relation to our value for money conclusion regarding performance management arrangements and data quality. We have reviewed the processes the Council is implementing to replace the previous performance management system and arrangements to ensure data quality. In addition to this specific area, we also reviewed the medium term financial forecast, and delivery of the budget. 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 Council's Corporate Plan ceased to be of relevance in 2012 and the Council has been developing and refreshing, through a consultation process, its strategic priorities. Revised strategic priorities have been published and were notified to officers and members in order to feed into the 2014/15 planning process. The Council now needs to undertake a review of its partnerships against those objectives to assess whether they continue to be fit for purpose and inform the Community Strategy which is due to be developed in the forthcoming financial year.

The Council maintains healthy levels of earmarked reserves and balances. As at 31 March 2014, the General Fund balance was £3.8 million which provides significant headroom over the minimum level of £2.4 million recommended by the Chief Finance Officer for 2014/15. The application of general reserves in future years will be necessary in order to offset residual funding gaps. Earmarked reserves were £5.6 million, of which £4m relates to the General Fund, and £1.6m to the Housing Revenue Account.

The Medium Term Financial Strategy (MTFS), known as the Policy Framework and Budget Setting Report was updated during the year to cover the five year period to 2018/19. This originally identified a base funding gap of £486,000 in 2015/16 and increasing funding gaps thereafter up to £3.6 million in 2018/19. We have reviewed the assumptions underlying the budgets and considered them to be reasonable. The funding gaps are to be delivered through a transformation programme named 'Operation Darwin' which will target specific services and processes where savings are to be achieved. The Council has a strong track record of delivering efficiency savings and the most recent finance report shows the funding gap in 2015/16 has already reduced by £230,000 to £256,000.

To secure the level of savings required in the medium to longer term, the Council will have to consider transformation of services and new ways of working as the levels of savings needed are significantly higher than previous targets as funding cuts continue and demand for services increases.

Challenging economy - efficiency - effectiveness

The Council previously used the Covalent system to record and report performance information and data. It was identified that the use of the system varied between services and was no longer fit for purpose nor did it provide value for money. An in-house database has been developed that is now in use for 2014/15 and requires managers to report quarterly against performance information and targets included within their team plans. The reports are being prepared quarterly and are then presented to the Executive Management Team for scrutiny and challenge.

To ensure data quality within this new database, a challenge process is planned for Autumn this year. Part of this 1:1 meeting will be to confirm definitions of the indicators, their relevance to the Council's objectives and whether the target is SMART (Specific, Measurable, Accurate, Realistic and Timely). There is a Head of Service template that all service Heads sign to confirm that data is accurate and that the service will undertake spot checks on performance information and an independent check of a sample of indicators is planned.

The new arrangements are sound and guidance has been issued to users to help usability. In terms of data quality, we will monitor the outcome of the challenge process and review the findings from the independent checks during 2014/15.

OTHER MATTERS

3

REPORT BY EXCEPTION

We have no other matters to report.

Annual Governance Statement

We were satisfied that the Annual Governance Statement was 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 was below the threshold for review and therefore we were only required to review the total amounts included in the Data Collection Tool for property, plant and equipment and for the net pension liability. We confirm that these reported totals were consistent with the audited financial statements.

GRANT CLAIMS AND RETURNS CERTIFICATION

4

CERTIFICATION WORK

The 2012/13 Housing and Council Tax Benefit subsidy claim was subject to qualification.

Certification findings 2012/13

We presented our most recent Grant claims and returns certification report in January 2014, which included the results of the audited returns for 2012/13. We certified 3 returns amounting to over £46.9 million.

The Housing and Council Tax Benefit subsidy audit highlighted a number of errors that resulted in a qualification. Recommendations were made and management have taken action to address issues highlighted.

Work in progress for 2013/14

We have completed our review of the Housing Pooled Capital Receipts return and have no matters to report. Our work on the Housing Benefits subsidy claim for 2013/14 is in progress.

We will report the findings from this work in January 2015.

APPENDIX

Reports issued

We issued the following reports in respect of the 2013/14 financial year.

REPORT	DATE
Planning letter	April 2013
Grant Claims and Returns Certification Report for year ended 31 March 2013	December 2013
Audit Plan	March 2014
Final Audit Report	September 2014
Annual Audit Letter	October 2014



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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