

Crawley Borough Council

Annual Audit Letter

Year ending 31 March 2014

October 2014

Ernst & Young LLP



Building a better
working world



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21 October 2014

Dear Members

Annual Audit Letter

The purpose of this Annual Audit Letter is to communicate to the Members of Crawley Borough Council and external stakeholders, including members of the public, the key issues arising from our work which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance of the Council in the following reports:

Crawley Borough Council audit results report for the year ended 31 March 2014	Issued 19 September 2014 and presented to the Audit and Governance Committee on 24 September 2014
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The matters reported here are the most significant for the Council.

I would like to take this opportunity to thank the officers of the Council for their assistance during the course of our work.

Yours faithfully

Paul King
For and behalf of Ernst & Young LLP
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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Executive summary

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan we issued in June 2014 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on an annual basis on the extent to which they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ forming an opinion on the financial statements;
- ▶ reviewing the Annual Governance Statement;
- ▶ forming a conclusion on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

Audit the financial statements of Crawley Borough Council for the financial year ended 31 March 2014 in accordance with International Standards on Auditing (UK & Ireland)	On 30 September 2014 we issued an unqualified audit opinion in respect of the Council.
Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources.	On 30 September 2014 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Council (the Audit and Governance Committee) communicating significant findings resulting from our audit.	On 19 September 2014 we issued our report in respect of the Council and presented it to the Audit and Governance Committee on 24 September 2014.
Report to the National Audit Office on the accuracy of the consolidation pack the Council is required to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 30 September 2014.
Consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.	No issues to report.
Consider whether, in the public interest, we should make a report on any matter coming	No issues to report.

to our notice in the course of the audit.

Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.

No issues to report.

Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

On 30 September 2014 we issued our audit completion certificate.

2. Key findings

2.1 Financial statement audit

We audited the Council's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified audit report on 30 September 2014.

In our view, the quality of the process for producing the accounts, including the supporting working papers was good.

The main issues identified as part of our audit were:

Significant risk 1: Non-domestic rates (NDR) rateable value appeals provision

Issue:

- ▶ There were significant changes in the arrangements for business rates from April 2013.
- ▶ One of the main changes was that individual councils needed to provide for rating appeals. This includes not only claims from 1 April 2013 but claims that relate to earlier periods. As appeals are made to the Valuation Office, Councils may not be aware of the level of claims and may also find it difficult to obtain sufficient information to establish a reliable estimate.

Findings:

- ▶ We assessed the work undertaken by the Council, including consideration of its use of experts. Our work, together with benchmarking procedures, raised issues regarding whether the Council needed to include an estimate in the provision for appeals not lodged at the Balance Sheet date.
 - ▶ Although our work gained reasonable assurance that the value of appeals not yet lodged is not material, given the omission we raised an uncertainty for the attention of the Audit and Governance Committee.
 - ▶ The Committee considered this issue, and approved the accounts without amendment. This did not prevent us issuing an unqualified audit opinion.
-

Significant risk 2: Co-operation agreement for the development of the North East Sector, Forge Wood

Issue:

- ▶ In March 2014, the Council entered into a co-operation agreement with three partners, the Homes and Communities Agency, Taylor Wimpey UK Limited and Persimmon Homes, for the development of land known as the 'North East Sector'.
- ▶ With significant transactions over the life of the development, this is a material and complex arrangement.

Finding:

- ▶ We found that the Council had correctly accounted for the entries in the 2013/14 financial statements.
-

Significant risk 3: Risk of management override

Issue:

- ▶ In all audits we recognise the risk that management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
-

Finding:

- ▶ Our work did not identify any indications of management override.
-

2.2 Value for money conclusion

We are required to carry out sufficient work to conclude on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2013/14 our conclusion was based on two criteria:

- ▶ The organisation has proper arrangements in place for securing financial resilience; and
- ▶ The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 26 September 2014.

We noted the following issues as part of our audit.

Key finding 1: Financial Resilience

- ▶ Looking ahead, the medium term financial strategy shows a widening budget deficit resulting in a cumulative gap of £1.096 million by 2017/18 if no corrective action is taken. In the context of the Council's general fund balances and earmarked reserves this level of budget gap is manageable.
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Key finding 2: Co-operation agreement for the development of the North East Sector, Forge Wood

- ▶ Based on a review of a sample of properties, the valuation methodology applied by the valuers is appropriate for assessing the market value of a development site.
 - ▶ It is clear that one of the factors behind the Council making the agreement is to stimulate development of the NE Sector, which is planned to deliver a significant proportion of the Council's affordable housing requirements. This may have over-ridden obtaining the maximum market value from the agreement. House price and sales increases, or lower than anticipated development costs could mean that the Council could receive more than the full market value for its holding.
-

Key finding 3: Risk management

- ▶ The Council's risk management strategy is not transparent. Whilst it appears that it is operating in accordance with the approved strategy, the Audit and Governance Committee (the body charged with responsibility for risk management within the Council) do not receive reports on risk management and its operation. As a result it is difficult to see how the Committee are able to be assured that it is operating in practice.
 - ▶ The Council should consider how the Audit and Governance Committee gain assurance that risks are being adequately managed within the Council. At the minimum, they should receive regular reports on the Council's strategic risks and how these are being managed
-

2.3 Objections received

We received no objections to the 2013/14 accounts from members of the public.

2.4 Whole of government accounts

We reported to the National Audit office, on 30 September 2014, the results of our work performed in relation the accuracy of the consolidation pack the Council is required to prepare for the whole of government accounts.

We had no issues to report.

2.5 Annual governance statement

We are required to consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE guidance.

We had no issues to report.

2.6 Use of other powers

We identified no issues during our audit that would necessitate using powers under the Audit Commission Act 1998, including reporting in the public interest.

3. Control themes and observations

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal of internal control we communicated to those charged with governance at the Council, as required, significant deficiencies in internal control.

We have no issues to include in this annual audit letter.

4. Audit Fees

A breakdown of our fee is shown below.

	Final fee 2013/14 £'000	Planned fee 2013/14 £'000	Scale fee 2013/14 £'000
Total Audit Fee – Code work	86,184	86,184	86,184
Certification of claims and returns ¹	14,833	14,833	14,833

Our actual fee is in line with the agreed fee.

We undertook no non-audit work at the Council in 2013/14.

Notes:

¹ Our fee for certification of grants and claims is yet to be finalised for 2013/14 as the work is ongoing. We plan to report this to those charged with governance within our Annual Certification Report for 2013/14

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