Lewes District Council

To all Members of the Audit and Standards Committee

A meeting of the **Audit and Standards Committee** will be held in the **Ditchling Room, Southover House, Southover Road, Lewes Southover House, Southover Road, Lewes** on **Monday, 28 November 2016** at **10:00** which you are requested to attend.

Members of the Audit and Standards Committee are invited to attend a training session directly after this meeting on 'The role of Internal Audit and Fraud at Lewes District Council' and 'The role of external audit', led by the Head of Audit, Fraud and Procurement and Janine Combrinck, BDO LLP.

Please note the venue for this meeting which is wheelchair accessible and has an induction loop to help people who are hearing impaired.

This meeting may be filmed, recorded or broadcast by any person or organisation. Anyone wishing to film or record must notify the Chair prior to the start of the meeting. Members of the public attending the meeting are deemed to have consented to be filmed or recorded, as liability for this is not within the Council's control.

16/11/2016

Catherine Knight
Assistant Director of Legal and Democratic Services

Agenda

1 **Minutes**
To approve the Minutes of the meeting held on 26 September 2016 (copy previously circulated)

2 **Apologies for Absence/Declaration of Substitute Members**

3 **Declarations of Interest**
Disclosure by councillors of personal interests in matters on the agenda, the nature of any interest and whether the councillor regards the interest as prejudicial under the terms of the Code of Conduct.

4 **Urgent Items**

Items not on the agenda which the Chair of the meeting is of the opinion should be considered as a matter of urgency by reason of special circumstances as defined in Section 100B(4)(b) of the Local Government Act 1972

5 Written Questions
To deal with written questions from councillors pursuant to Council Procedure Rule 12.3 (page D8 of the Constitution)

6 Interim Report on the Council's Systems of Internal Control 2016/17 (page 3)
To receive the Report of the Head of Audit, Fraud and Procurement (Report No 155/16 herewith)

7 Treasury Management (page 12)
To consider the Report of the Deputy Chief Executive (Report No 156/16 herewith)

8 Annual Audit Letter (page 32)
To consider the Report of BDO Accountants and Business Advisers (Report No 157/16 herewith)

9 Audit for the year ended 31 March 2016 (page 46)
To consider the Report of BDO Accountants and Business Advisers (Report No 158/16 herewith)

10 Date of Next Meeting
To note that the next meeting of the Audit and Standards Committee is scheduled to be held on Monday, 16 January 2017 in the Ditchling Room, Southover House, Southover Road, Lewes commencing at 10.00am

For further information about items appearing on this Agenda, please contact Zoe Downton at Southover House, Southover Road, Lewes, East Sussex BN7 1AB Telephone 01273 471600

Distribution: Councillors M Chartier (Chair), S Catlin, N Enever, S Gauntlett, I Linington, R Robertson and T Rowell

(Members of the Committee who are unable to attend this meeting or find a substitute councillor to attend on their behalf should notify Zoe Downton, Committee Officer, zoe.downton@lewes.gov.uk)

Agenda Item No:	**6**	**Report No:**	**155/16**
Report Title:	**Interim Report on the Council's Systems of Internal Control 2016/17**		
Report To:	**Audit and Standards Committee**	**Date: 28 November 2016**	
Ward(s) Affected:	**All**		
Report By:	**Head of Audit, Fraud and Procurement**		

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Purpose of Report:

To inform Councillors on the adequacy and effectiveness of the Council's systems of internal control during the first seven months of 2016/17, and to summarise the work on which this opinion is based.

Officers Recommendation(s):

1 To note that the overall standards of internal control were satisfactory during the first seven months of 2016/17 (as shown in Section 3).

Reasons for Recommendations

1 The remit of the Audit and Standards Committee includes the duties to agree an Annual Audit Plan and keep it under review, and to keep under review the probity and effectiveness of internal controls, both financial and operational, including the Council's arrangements for identifying and managing risk.

Information

2 Background

2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) has, with the other governing bodies that set auditing standards for the various parts of the public sector, adopted a common set of Public Sector Internal Audit Standards (PSIAS) that were applied from 1 April 2013. The Head of Audit, Fraud and Procurement (HAFP) advised the Audit and Standards Committee of the effect of the standards at its March 2013 meeting.

2.2 The PSIAS have been updated, with new standards published in April 2016. The impact of the new standards was reported to the September 2016 meeting of the Committee.

2.3 The PSIAS 2016 continue to specify the requirements for the reporting to the Audit and Standards Committee and senior management by HAFP. These requirements are met via a series of reports, including interim reports to each meeting of the Committee. Each interim report includes a review of the work undertaken by Internal Audit compared to the annual programme, an opinion of HAFP on the internal control, risk management and governance environment at the Council, together with any significant risk exposures and control issues, in the period since the beginning of the financial year. Each interim report contains an appendix that includes an outline of each of the final audit reports issued since the previous meeting of the Committee, and an appendix that outlines any significant recommendations that have not yet been implemented.

3 Internal Control Environment at Lewes District Council

3.1 The Annual Report on the Council's Systems of Internal Control for 2015/16 included the opinion of HAFP that the overall standards of internal control are satisfactory. This opinion was based on the work of Internal Audit and the Council's external auditors, BDO, and the Council's work on risk management. In the seven months since the start of the financial year there has been nothing to cause that opinion to change and there have been no instances in which internal control issues created significant risks for Council activities or services. Prompt corrective action was taken to address issues noted during an internal audit of the Council's Right to Buy (RTB) processes (see also 4.8).

4 Internal Audit work 2016/17

4.1 This section of the report summarises the work undertaken by Internal Audit during the first seven months of the year, compared to the annual plan that was presented to the Audit and Standards Committee in March 2016. Further information on each of the audits completed since the previous meeting of the Committee is given at Appendix A.

4.2 Table 1 shows that a total of 403 audit days have been undertaken compared to 372 planned. The variance of 31 days has largely been due to the Head of Audit, Fraud and Procurement being involved in more direct audit work at this stage of the year than was originally envisaged. It is estimated that the audit days will be close to plan by the year end, although there may be an impact from the staff change outlined at 4.3 below.

Table 1: Plan audit days compared to actual audit days for April to October 2016

Audit Area	Actual audit days for the year 2015/16	Plan audit days for the year 2016/17	Actual audit days to date	Pro rata plan audit days to date
Main Systems	360	290	187	
Central Systems	57	60	69	
Departmental Systems	68	70	83	
Performance and Management Scrutiny	27	45	6	
Computer Audit	2	45	-	
Management Responsibilities/Unplanned Audits	88	116	58	
Total	602	626	403	372

Note: The 'Pro rata plan audit days to date' provides a broad guide to the resources required to carry out planned audits. The actual timing of the individual audits will depend on a variety of factors, including the workloads and other commitments in the departments to be audited.

4.3 One of the Senior Auditors at LDC has confirmed his planned retirement in January 2017. The intention is for the vacancy to be filled, although the recruitment process is in its early stages; depending on the outcome there could be a reduction in the days available for audit work in 2016/17.

4.4 ***Main Systems:*** The initial work was on the testing of the major financial systems in order to gain assurance on the adequacy of internal controls for the Annual Governance Statement (AGS) and to inform BDO's work on the Council's accounts for 2015/16. A final report has been issued.

4.5 The work on behalf of BDO to test the Council's subsidy claims for Benefits for 2015/16 is underway. BDO's initial planning for this work had set out the standard testing requirements and identified the likely need for significant additional testing to address the issues noted in the previous year's claim. The standard testing was completed, and the test samples for the additional testing were confirmed in late October. The additional testing has been underway since then but the claim will not be submitted to the Department of Work and Pensions (DWP) by the normal submission date at the end of November 2016. The Benefits subsidy claim is now the priority task for Internal Audit.

4.6 ***Central Systems:*** Audits of Insurance and the Newhaven Business Centre are at the draft report stage. Some outstanding issues from the audit of Electoral Registration and Elections are being examined prior to confirmation of the draft report. Final reports have been issued for the audit of Ethics and for the priority audit of Business Continuity Planning (BCP). The results of the joint review of the EBC/LDC Leisure Trusts are shortly to be discussed with CMT, after which the report will be finally issued.

4.7 ***Departmental Systems:*** The final reports from the audits of Right to Buy (RTB) and Private Sector Housing have been issued. The audit of Cemeteries is at the draft report stage. The audit of Estates Management, incorporating work on the corresponding function at EBC, has been planned and will commence in January 2017.

4.8 The final report from the audit of RTB included an estimate of the impact of the discounting errors in completed and ongoing RTB sales in the period 2012/13 – 2015/16. The estimated loss to LDC was approximately £100,000. Immediate action was taken to correct the prices of ongoing sales, as was reported to the September 2016 meeting of the Committee. The effect is that the loss to LDC has been reduced to £88,000.

4.9 ***Performance and Management Scrutiny:*** The main work in this category has been in reviewing the data that supports the Annual Governance Statement (AGS), and specific tasks related to the Internal Audit aspects of the Council's Joint Transformation Programme (JTP).

4.10 ***Computer Audit:*** Internal Audit has examined the IT aspects of the main financial systems (see 4.3 above).

4.11 ***Management Responsibilities/Unplanned Audits:*** This category provides resources for activities such as support for the Audit and Standards Committee, managing the Fraud Investigations Team, liaison with BDO, managing the Follow Up procedures, as well as for special projects or investigations.

5 Follow up of Audit Recommendations

5.1 All audit recommendations are followed up to determine whether control issues noted by the original audits have been resolved. The early focus for follow up in 2016/17 has been on confirming the implementation of the recommendations that had been agreed in the previous year. The results of this work were reported separately to the June 2016 meeting of the Committee.

6 Quality Reviews/Customer Satisfaction Surveys/Performance Indicators (PIs)

6.1 The results of the Internal Audit quality reviews, customer satisfaction surveys and PIs for 2015/16, and the targets for 2016/17, were reported to the June 2016 meeting of the Committee. The results enabled the HAFP to report that the Internal Audit service at Lewes is fully effective, is subject to satisfactory management oversight, achieves its aims, and objectives, and operates in accordance with the Internal Audit Strategy as approved by the Committee.

7 Combatting Fraud and Corruption

7.1 The Annual Report on the Council's work to combat Fraud and Corruption 2015/16 was presented to the June 2016 meeting of the Committee. That report was a detailed statement of the strategies and structures that in place to counter fraud and corruption, and the information within the report is still accurate and relevant. Below are updates that outline the main developments since the start of 2016/17.

Local developments

7.2 The Investigation Team maintains its membership of the East Sussex Fraud Officers Group (ESFOG), a body that enables information sharing and joint initiatives with neighbouring authorities on a wide range of counter fraud work. A sub group of six authorities within ESFOG are working together in a 'Hub' approach to coordinate new anti-fraud initiatives across East Sussex and Brighton. The Hub has funded an ongoing programme of training, the implementation of a shared case management system that became fully operational in June 2016, and publicity work carried out by the private sector company PRG.

LDC Investigations Team

7.3 The Council has in place an agreement with DWP for the management of cases of HB fraud, and officers work with local DWP teams to help ensure efficient operation of the processes covered by the agreement. The major work on each case is the responsibility of the national Single Fraud Investigation Service (SFIS) within DWP. The Council retains a role in referring cases of suspected HB fraud to SFIS and handling requests for information. In an agreement with the Investigation Team at EBC a member of that team has, since mid-August 2016, taken over the Council's SFIS liaison work. Since 1 April 2016, 76 HB cases have been passed to SFIS, and 46 information requests have been actioned.

7.4 The LDC Investigations Team retains responsibility for dealing with the cases of suspected Council Tax Reduction Scheme (CTRS) fraud that are often linked to HB cases, and administering the penalties for cases that are not subject to prosecution. Nine cases are currently awaiting investigation.

7.5 The main focus of the team's work in 2016/17 has been in continuing to address tenancy issues. The team's approach has included obtaining best practice guidance from other authorities, and maintaining effective referral arrangements with officers in LDC Housing Services. Two properties have been returned to the Council's housing stock, and 13 suspected cases of abandonment or subletting are being investigated or are undergoing pre-investigation review.

7.6 Since July 2016, the Investigation Team has been operating a new regime of checks on Right to Buy (RTB) applications to prevent and detect fraud, and protect the Council against money laundering. To date, 16 RTB applications have been withdrawn after intervention by the Investigations Team. The team has been examining the withdrawn applications and one of the ongoing applications because some of the cases indicate potential fraud; three investigations are underway.

National Fraud Initiative (NFI)

7.7 Internal Audit continues to coordinate the Council's work on NFI data matching exercises. Council services submitted the various data ranges in mid-October 2016 and have dealt with a number of queries since then.

7.8 Internal Audit, the Investigations Team and service managers are preparing for the receipt of the reported matches in February 2017. New types of matches, and forecasts of more matches in categories such as Identity Theft, mean that the Investigations Team will have a greater role than previously in dealing with output from the exercise. Future reports to the Committee will contain progress reports on the NFI.

8 Risk Management

8.1 Cabinet approved the Risk Management Strategy in September 2003. Since then risk management at the Council has been the subject of ongoing development, with the result that all the elements of the risk management framework set out in the strategy are in place and are maintained at best practice standards.

8.2 The risk management process has identified that most risks are mitigated by the effective operation of controls or other measures. However, there are some risks that are beyond its control, for example a major incident, a 'flu' pandemic, a downturn in the national economy or a major change in government policy or legislation. The Council has sound planning and response measures to mitigate the effects of such events, and continues to monitor risks and the effectiveness of controls. The overall satisfactory situation for risk management has helped to inform the opinion on the internal control environment.

9 The Government introduced a national deficit reduction plan for the public sector in 2011/12. In response, the Council has committed to a phased annual programme to make budget savings. The total value of savings made in the General Fund budget (which covers all services except the management and maintenance of Council-owned homes) since 2011/12 has been £3.5m with each annual savings target being successfully achieved in-year.

10 When setting the General Fund budget for 2016/17, the Council identified a requirement to make further savings, which will reduce spending by £2.8m over the four years to 2019/20. The target for 2016/17 is £685,000 of which £400,000 is to be generated from the JTP with EBC. A budget has been allocated to finance the investment needed to implement the changes required through the JTP

11 There are also pressures to reduce spending on the management and maintenance of Council owned (HRA) housing. The Government has introduced a number of measures, starting in 2016/17, which will reduce the amount of income that it receives from tenants. The first of these measures, a 1% annual reduction in tenants' rents for each of the next four years, will incrementally reduce HRA income by £2.8m by 2019/20, the total shortfall in that period being £6.9m.

11.1 The Annual Report on Risk Management was presented to the June 2016 meeting of the Committee. The report forms part of the annual reporting cycle on risk as set out in the Risk Management Strategy. The report was presented to Cabinet at its July 2016 meeting.

12 System of management assurance

12.1 The Council operates a management assurance system, which enabled senior officers to confirm the proper operation of internal controls, including compliance with the Constitution, in those services for which they are responsible. As part of this process all members of the Corporate Management Team (CMT) are required to consider whether there were any significant governance issues during 2015/16. At its meeting on 3 May 2016 CMT confirmed that there were no significant governance issues to report. There has been nothing in the first seven months of the financial year to change these assessments.

13 Corporate governance

13.1 In March 2016, HAFP reviewed the Council's Local Code of Corporate Governance, and concluded that the arrangements remain satisfactory and fit for purpose. These results were reported to the March 2016 meeting of the Committee.

13.2 The Council is required to produce an Annual Governance Statement (AGS), which outlines the main elements of the Council's governance arrangements and the results of the annual review of the governance framework including the system of internal control. The draft AGS for 2016 was presented to the June 2016 meeting of the Committee, and the final version of the AGS was presented to the September 2016 meeting of the Committee with the Statement of Accounts for 2015/16.

14 External assurance

14.1 The Government relies on external auditors to periodically review the work of the Council to make sure it is meeting its statutory obligations and performing well in its services. The results of these external reviews have helped inform the opinion on the internal control environment. The recent results are summarised below.

14.2 Annual Audit Letter for 2015/16 (October 2016) – This report summarises the key issues from the work carried out by BDO during the year, and is presented to the November 2016 meeting of the Committee. The key issues were:

- BDO issued an unqualified true and fair opinion on the financial statements for the period ended 31 March 2016.
- BDO identified a number of misstatements on the Cash Flow Statement and in the classification of short term investments. These were corrected before completion of the financial statements.
- BDO were satisfied that the Narrative Report, which local authorities include in the Statement of Accounts to offer interested parties guidance on the most significant matters, was consistent with the financial statements.
- BDO did not identify any significant deficiencies in the Council's framework of internal controls, but did report on areas where improvements in controls could be made including declarations of related party transactions, the documentation of Council Tax discounts, and access to some IT systems.

- BDO were satisfied that the Annual Governance Statement (AGS) was not misleading or inconsistent with other information they were aware of from their audit work.
- BDO issued an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- BDO found that the Council has adequate arrangements for budget setting and budget monitoring, and the Council has identified sufficient savings over the next four years to balance its budget.
- BDO noted that many of the savings will arise from the Joint Transformation Programme with EBC, and BDO were satisfied that there are effective governance arrangements in place to oversee delivery of the project.
- BDO noted that the Council's Whole of Government Accounts (WGA) submission is below the threshold for further work other than to submit the WGS Assurance Statement. This was submitted on 7 October 2016 ahead of national deadline.
- BDO reported that the review of grant claims and returns for 2015/16 is in progress, and the results will be reported on completion.
- BDO reviewed the governance arrangements for Council's New Homes Project, and made a number of recommendations for improvement that should be applied to future projects.

14.3 Grant Claims and Returns Certification for year ended 31 March 2015 (April 2016). The report was presented to the June 2016 meeting of the Committee. The key points were:

- The audit identified a high level of errors within the cases tested, which required a significant amount of extra testing by BDO and the Council. No amendments were made to the final claim submitted to DWP.
- The main errors were in the administration of benefits involving non-HRA rent rebates and rent allowances. There were a small number of cases of incorrect classification of expenditure as non-HRA, when the expenditure should have been classified as HRA rent rebates.
- The audit identified deficiencies in the Council's systems and controls around the identification of prior year uncashed payments, resulting in an under claim of £556.
- As a result of the errors found in administering benefits, BDO qualified the claim across all benefit expenditure types. The additional work required to be completed by the Council and BDO meant that the audited claim was submitted to DWP in March 2016, four months after the deadline date.
- The certification of the returns for the Pooling of Housing Capital Receipts was completed satisfactorily without amendment of certification. The main reported issue was the need for the Council to have in place appropriate plans to use retained receipts by certain milestone dates, otherwise the receipts must be paid to DCLG.

14.4 As was reported to the June 2016 meeting of the Committee, DWP made a marginal adjustment to the submitted claim which was agreed at a total value of approximately £35.8m.

15 Financial Appraisal

15.1 There are no additional financial implications from this report.

16 Sustainability Implications

16.1 I have not completed the Sustainability Implications Questionnaire as this report is exempt from the requirement because it is an internal monitoring report.

17 Risk Management Implications

17.1 If the Audit and Standards Committee does not ensure proper oversight of the adequacy and effectiveness of the Council's systems of internal control there is a risk that key aspects of the Council's control arrangements may not comply with best practice.

18 Legal Implications

18.1 There are no legal implications arising from this report.

19 Equality Screening

19.1 This report is for information only and involves no key decisions. Therefore, screening for equality impacts is not required.

20 Background Papers

20.1 Annual Audit Plan 2016/17

21 Appendices

21.1 Appendix A1: Statement of Internal Audit work and key issues - none for this report

21.2 Appendix A2: Table of abbreviations.

21.3 There is no Log of Significant Outstanding Recommendations (normally Appendix B) for this report.

APPENDIX A1

Statement of Internal Audit work and key issues
None.

Appendix A2

Table of abbreviations

AGS – Annual Governance Statement
BCP – Business Continuity Planning
BDO – BDO, the Council's external auditors. Formerly BDO Stoy Hayward
CIPFA – Chartered institute of Public Finance and Accounting
CMT – Corporate Management Team
CTRS – Council Tax Reduction Scheme
DCLG – Department for Communities and Local Government
DFGs – Disabled Facilities Grants
DWP – Department of Work and Pensions
EBC – Eastbourne Borough Council
ESFOG – East Sussex Fraud Officers Group
HAFP – Head of Audit, Fraud and Procurement
HB – Housing Benefit
HRA – Housing Revenue Account. Refers to Council owned housing
ISO – International Organisation for Standardisation
IT – Information Technology
JTP – Joint Transformation Project
LDC – Lewes District Council
NFI – National Fraud Initiative
PIs – Performance Indicators
PSIAS – Public Sector Internal Audit Standards
QAIP – Quality Assurance and Improvement Programme
RTB – Right to Buy
SFIS – Single Fraud Investigation Service
WGA – Whole of Government Accounts

Agenda Item No:	**7**	**Report No:**	**156/16**
Report Title:	**Treasury Management**		
Report To:	**Audit and Standards Committee**	**Date: 28 November 2016**	
Ward(s) Affected:	**All**		
Report By:	**Alan Osborne, Deputy Chief Executive**		

Contact Officer(s)-

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Purpose of Report:

To present details of recent Treasury Management activity

Officers Recommendation:

1. To note the Mid-year Treasury Management Report 2015/2016.

2. To confirm to Cabinet that Treasury Management activity between 1 September and 31 October 2016 has been in accordance with the approved Treasury Strategy for that period.

Reasons for Recommendations

1 The Council's approved Treasury Strategy Statement requires the Audit and Standards Committee to review details of Treasury transactions and make observations to Cabinet. The Audit and Standards Committee is also required to review the Mid-year Treasury Management Report.

2 Mid-year Treasury Management Report 2016/2017

2.1 As well as reviewing details of Treasury transactions during the course of the year, the Audit and Standards Committee (and Cabinet) is also required to review a formal Mid-year summary report. Council then considers this report in accordance with best practice and guidance issued by the Chartered Institute of Public Finance and Accountancy.

2.2 The timing of the Committee/Council meeting cycle has meant that the Audit and Standards Committee does not have the opportunity to consider the Mid-year Report for 2016/2017 in advance of Cabinet, which received it on 16 November 2016 and recommended to Council that it should be approved when it meets on 7 December. However, it remains appropriate for the Audit and Standards Committee to consider this report, attached at Appendix 1, with any comments being passed on to Council when it meets.

2.3 The Mid-year Report covers the period 1 April to 30 September 2016. It confirms that the key elements of the approved Treasury and Investment Strategy have been complied with during the first half of the year. Section 2 of the Mid-year Report provides a summary of performance against the key targets in the 2016/17 Strategy, with the remainder of the Report giving a more detailed explanation of borrowing and investment activity and the broader economic context within which officers have worked.

3 Treasury Management Activity

3.1 The Council's approved Treasury Strategy Statement requires the Audit and Standards Committee to review details of Treasury Strategy transactions against the criteria set out in the Strategy and make observations to Cabinet as appropriate.

3.2 The timetable for reporting Treasury Management activity in 2016/2017 is shown in the table below. This takes into account the timescale for the publication of each Committee agenda and is on the basis that it is preferable to report on activity for complete months. Any extraordinary activity taking place between the close of the reporting period and the date of the Audit and Standards Committee meeting will be reported verbally at that meeting.

Meeting date	Reporting period for transactions
28 November 2016	1 September to 31 October 2016
16 January 2017	1 November to 31 December 2016
20 March 2017	1 January to 28 February 2017

3.3 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held at 31 October 2016 and identifies the long-term credit rating of each counterparty at the date of investment. It is important to note that credit ratings are only one of the criteria that are taken into account when determining whether a potential counterparty is suitable. All of the deposits met the necessary criteria.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating
228716	Thurrock Borough Council	27/05/16	28/11/16	185	3,000,000	0.50	*
229716	Nationwide Building Society	06/06/16	06/12/16	183	1,000,000	0.71	A
230916	Nationwide Building Society	18/08/16	20/02/17	186	1,000,000	0.40	A
231316	Thurrock Borough Council	05/10/16	04/01/17	91	1,750,000	0.25	*
231716	Thurrock Borough Council	21/10/16	23/01/17	94	500,000	0.25	*
					7,250,000		

*UK Government body and therefore not subject to credit rating

3.4 Fixed Term Deposits which have matured in the reporting period

The table below shows the fixed term deposits which have matured since 1 September 2016, in maturity date order. It is important to note that the table includes sums reinvested and that in total the Council's investments have not increased by £19.75m over this period.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating
231016	Debt Management Office	01/09/16	05/09/16	4	2,000,000	0.15	*
231116	Debt Management Office	01/09/16	12/09/16	11	2,000,000	0.15	*
231216	Debt Management Office	15/09/16	19/09/16	4	3,000,000	0.15	*
229816	Thurrock Borough Council	01/07/16	05/10/16	96	1,750,000	0.71	*
231416	Coventry Building Society	03/10/16	10/10/16	7	2,000,000	0.19	A
231616	Debt Management Office	10/10/16	20/10/16	10	3,000,000	0.15	*
231816	Debt Management Office	17/10/16	20/10/16	3	3,000,000	0.15	*
231516	Coventry Building Society	10/10/16	24/10/16	14	2,000,000	0.20	A
231916	Coventry Building Society	24/10/16	31/10/16	7	1,000,000	0.19	A
	Total				19,750,000		
	*UK Government body and therefore not subject to credit rating						

At no stage did the total amount held by any counterparty exceed the approved limit set out in the Investment Strategy. The average rate of interest earned on deposits held in the period 1 September and 31 October 2016 was 0.44%, above the average bank base rate for the period of 0.39%. Those made during the period averaged 0.30%.

3.5 Use of Deposit accounts

In addition to the fixed term deposits, the Council has made use of the following interest bearing accounts in the period covered by this report, with the average amount held being £1.964m generating interest of approximately £400.

	Balance at 31 Oct '16 £'000	Average balance £'000	Current interest rate %
Santander Business Reserve Account	Nil	361	0.05%
Lloyds Bank Corporate Account	1,092	870	0.15%

3.6 Use of Money Market Funds

Details of the amounts held in the two Money Market Fund (MMF) accounts used by the Council are shown overleaf. The approved Investment Strategy allows a maximum investment of £3m in each fund, and at no time was this limit exceeded.

	Balance at 31 Oct '16 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	3,000	3,000	0.44%
Deutsche Managed Sterling Fund	3,000	2,368	0.44%

3.7 Purchase of Treasury Bills (T-Bills)

The table below shows the T-Bills held at 31 October 2016 and activity in the period. It is the Council's intention to hold T-Bills until maturity.

	Maturity Date .	Purchased in period	Purchase date	£'000	Disc %
Held at 31 October 2016					
UK Treasury Bill 0%	03 Jan 17		04 Jul 16	1,000	0.420
Matured since last report					
UK Treasury Bill 0%	10 Oct 16		11 Jul 16	1,000	0.380
UK Treasury Bill 0%	17 Oct 16		18 Jul 16	1,000	0.414

The average discount (ie the gross return) achieved on T-Bills held in the period was 0.41%. No T-Bills were purchased during the period.

3.8 Secured Investments

The investments below are secured against the assets of the bank. The interest rate can vary, by reference to changes in the 3 month 'London Interbank Offered Rate (LIBOR)'.

Ref	Counterparty	Date From	Date To	Days	Principal £	Current Rate %	Long Term Rating
XS0769914218	Abbey National Treasury	12 May 16	05 Apr 17	328	1,000,000	0.681	AAA
XS113251472	Bank of Nova Scotia	22 Jul 16	02 Nov 17	414	2,000,000	0.567	AAA
					3,000,000		

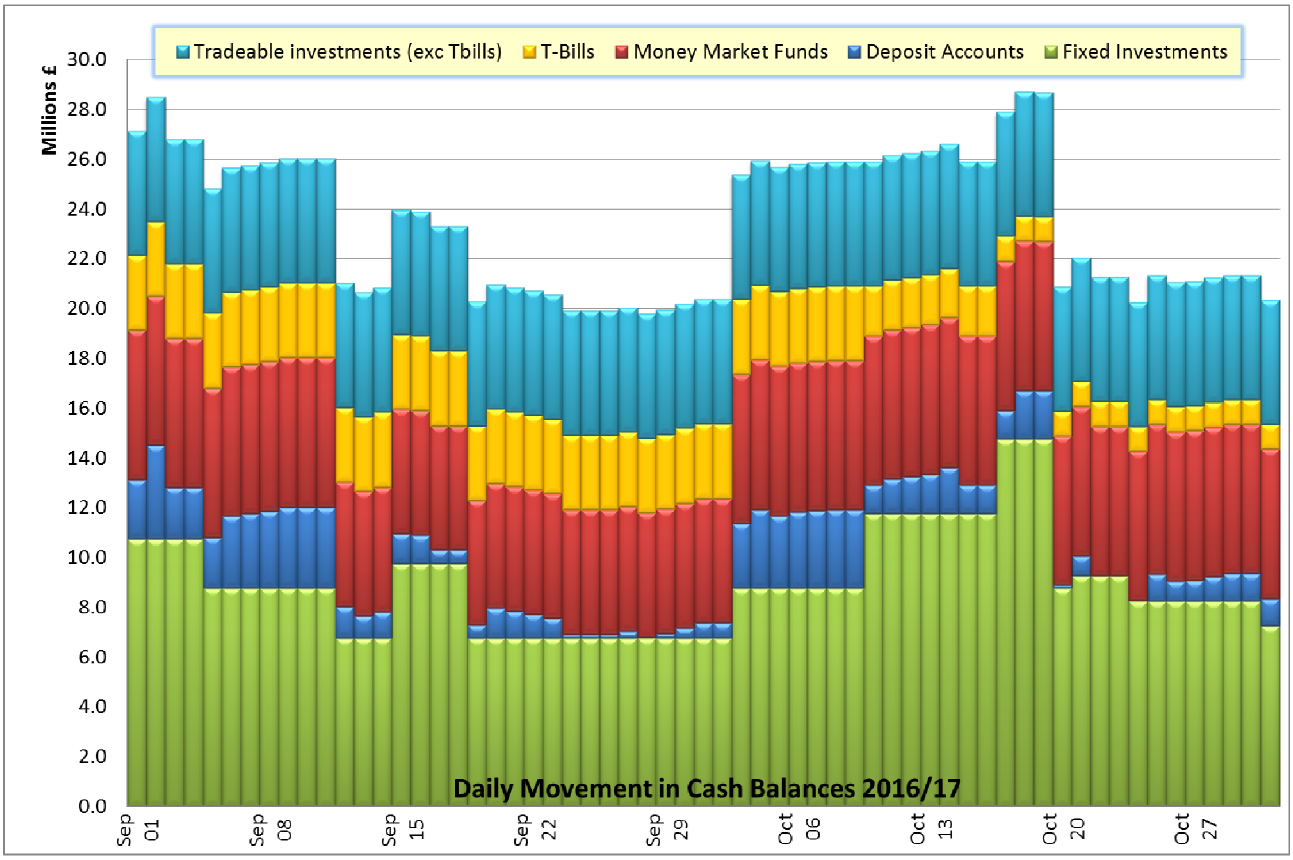
3.9 Certificates of Deposit (CDs)

During the period the following CD was held. CDs are fixed term, tradeable deposits. The intention is to keep the CD until maturity

Ref	Counterparty	Date From	Date To	Days	Principal £	Current Rate %	Long Term Rating
32264	Rabobank	16 Aug 16	16 Dec 16	122	2,000,000	0.36%	AAA
					2,000,000		

3.10 Overall investment position

The chart below summarises the Council's investment position over the period 1 September to 31 October 2016. It shows the total sums invested each day as Fixed Term deposits, T-Bills, amounts held in Deposit accounts, MMFs and Tradeable Investments.



3.11 Custody Accounts

Investments in Treasury Bills, bonds, certificates of deposits and other tradeable instruments are held securely in Custody accounts in the Council's name. Without custody accounts, which are available from banks and other specialist firms, the Council could not access a significant range of investments meaning that its ability to diversify the portfolio is significantly affected.

Currently the Council has two custody accounts in place. One of these accounts is provided by a supplier which is no longer recommended for use by Arlingclose, the Council's treasury adviser. In order to maintain the opportunity for investment in these instruments, another custody account is to be opened with an alternative supplier. Cabinet have been recommended to approve this action, as required by the Council's Financial Procedure Rules.

3.12 Borrowing

No temporary borrowing has been undertaken and the current account with Lloyds Bank remained in credit throughout the period.

There has been no change in the total value of the Council's long term borrowing in the reporting period, which remains at £56.673m.

Within the portfolio of loans is a £5m loan from Barclays Bank plc, advanced in April 2004 with a maturity date in April 2054. As reported to the last meeting of the Audit and Standards Committee, Barclays have waived their right to increase the interest rate on the loan at four-yearly intervals, with the effect that the interest rate is now fixed at the current level, 4.5%. A premium, estimated at £4.5m would be payable to Barclays if the Council were to repay this loan now. This would not be cost-effective – the additional cost to the Council compared with letting this loan run to maturity is estimated to be £1.6m.

Financial Implications

4 All relevant implications are referred to in the above paragraphs.

Risk Management Implications

5 The risk management implications associated with this activity are explained in the approved Treasury Management Strategy. No additional implications have arisen during the period covered by this report.

Equality Screening

6 This is a routine report for which detailed Equality Analysis is not required to be undertaken.

Legal Implications

7 None arising from this report.

Background Papers

Treasury Strategy Statement http://www.lewes.gov.uk/council/20987.asp

Appendix

Mid-year Treasury Management Report 2016/2017

APPENDIX

Lewes District Council

Mid-year Treasury Management Report 2016/2017

Contents

1. Background

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (the Code) recommends that full Council should receive every year reports on Treasury Management policies and activity before the start of the year, mid-year and after the end of the year. The intention is that those with ultimate responsibility for the Treasury Management function appreciate fully the implications of Treasury Management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

1.2 The Council defines its Treasury Management activities as:

> *"the management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

1.3 This mid-year report covers the period 1 April to 30 September 2016.

2. Overall Summary of Activity

2.1 At its meeting in February 2016, the Council agreed its Treasury Management Strategy Statement and Investment Strategy 2016/17 to 2018/19. The table below lists the key elements of that Strategy and records actual performance in the first six months of the year against each one of them.

Key Element	Target in Strategy	Actual Performance	
Borrowing			
Underlying need to borrow (CFR) at year end	£75.049 million	£80.591 million (projection 31 March)	-
Internal borrowing at year end	£18.376 million	£23.918 million (projection 31 March)	-
New external long-term borrowing in year	None anticipated	None undertaken Apr to Sept '16.	✓
Debt rescheduling in year	Review options but not anticipated	Options kept under review, none undertaken Apr to Sept' 16.	✓
Interest payments on external borrowing	£1.730 million	£0.869m (to date)	✓
Investments			
Minimum counterparty credit ratings for investments of up to 6 months	Long-term A- (does not apply to Government and other local authorities which have the highest ratings)	Long-term A	✓
Interest receipts from external investments	£0.104m	£0.086m (to date)	✓

Key Element	Target in Strategy	Actual Performance	
Appointment of Investment Consultants			
Independent Treasury Adviser to be retained	Decide on option to extend Arlingclose contract by 12 months to June 2017	Exercised option to extend Arlingclose contract by 12 months to June 2017	✓
Reporting and Training			
Reports to be made to Audit and Standards Committee and Cabinet	Every meeting	Every meeting	✓
Briefing sessions for Councillors and Staff	Treasury Adviser to provide	Staff training scheduled for October 2016. Councillor briefing session anticipated late 2016	✓

2.2 For those who are looking for more than this overall confirmation that all treasury management and investment activity in 2016/2017 has been carried out in accordance with the Council's agreed Strategy, the remainder of this report analyses each of the key elements in more depth. Appendix A, supplied by Arlingclose explores the economic background to the year's activity and Appendix B lists all term deposits made in the first half of the year. A Glossary appears at the end of the document to explain the technical terms which could not be avoided when writing this report.

3. Detailed Analysis - Borrowing

3.1 Other than for temporary cash flow purposes, local authorities are only allowed to borrow to finance capital expenditure (eg the purchase of property, vehicles or equipment which will last for more than one year, or the improvement of such assets). The Government limits the amount borrowed by local authorities for housing purposes only by specifying 'debt caps'. This Council's underlying debt cap has been fixed at £72.931m. In 2014/2015 local authorities were able to bid for an increase in the housing debt cap in order to enable specific projects. A bid from this Council was successful and the debt cap has been increased to £75.248m to match expenditure incurred in building new houses on 7 specified former garage sites

3.2 In accounting terms, the underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR) while usable reserves and working capital are the underlying resources available for investment. In recent years, the Council's strategy has been to maintain borrowing and investments below their underlying levels, known as internal borrowing, and this remains the Strategy for 2016/2017.

3.3 The CFR is, in simple terms, the amount of capital expenditure which has been incurred by the Council but which has not yet been paid for (by using, for example, grants, capital receipts, reserves or revenue income) and in the meantime is covered by internal or external borrowing. 'External borrowing' is where loans are raised from the Public Works Loans Board (PWLB) or banks. Alternatively it is possible to 'internally borrow' the significant levels of cash which has been set aside in Balances and Reserves and which would otherwise need to be invested with banks or other counterparties.

3.4 As noted above, the level of CFR increases each year by the amount of unfinanced capital expenditure and is reduced by the amount that the Council sets aside for the repayment of borrowing. The original CFR projection for 2016/2017, along with an updated analysis, is shown in the table below. The increases in capital expenditure and financing shown reflect the approved capital programme as at September 2016, and assume that all projects are completed in the year. That outcome is unlikely however - the capital programme represents an allocation of funds to specific long-term projects many of which span financial years, for example investment in new technology to support the Joint Transformation Programme with Eastbourne Borough Council at a projected cost of £4.3 million.

	2016/17 Original £m	2016/17 Projected £m
Opening CFR	70.893	71.531
Capital expenditure in year (projected)	17.471	24.855
Less financed	(11.469)	(14.506)
Less amount set aside for debt repayment	(1.846)	(1.289)
Closing CFR	75.049	80.591

3.5 As at 30 September 2016, capital expenditure with a total value of £3.9m had been incurred (excluding commitments) compared with the approved capital programme of £24.9m (including £10.6m brought forward from 2015/2016). £14.5m of total capital expenditure will be funded from existing capital resources, with £10.4m to be funded from borrowing (including the acquisition of property to support a development programme at North Street, Lewes, and the construction of a new depot for use by the waste and recycling service).

3.6 The overall CFR can be split between the General Fund and Housing Revenue Account as follows:

	2016/17 Original £m	2016/17 Projected £m
General Fund CFR	10.067	14.810
Housing Revenue Account CFR	64.982	65.781
Total CFR	75.049	80.591

3.7 The following table compares the CFR with the amount that the Council holds in balances and reserves as well as working capital (day to day cash movements as well as grants, developer contributions and capital receipts held pending use):

	31/3/17 Original £m	31/3/17 Projected £m
(a) Capital Financing Requirement	75.049	80.591
(b) Actual external borrowing	(56.673)	(56.673)
(c) Use of Balances and Reserves and working capital as alternative to borrowing (a)–(b)	18.376	23.918

3.8 Total interest paid on long-term borrowing in the period to 30 September 2016 was £0.869 million, representing the first of two instalments of interest due on the Council's loans from the PWLB and a £5 million market loan from Barclays Bank at the rate of 4.5% with a term of 50 years maturing in April 2054. The original loan agreement with Barclays enabled the bank to increase the interest rate of the loan on a specified date every four years, although the Council could, in that event, repay the loan without penalty. The bank has now decided to permanently waive its right to change the interest rate on this loan, which effectively becomes fixed at the current rate of interest 4.5%.

3.9 The Council qualifies for new borrowing at the 'Certainty Rate' (0.20% below the PWLB standard rate) in 2016/2017. In the period to September 2016, no new borrowing, either long-term or short-term (for cash flow purposes) had been undertaken.

3.10 Through the year, officers, supported by Arlingclose, monitor opportunities for the rescheduling of external loans and the possibility of repayment utilising cash balances that would otherwise be invested. The borrowing portfolio (£56.673m in total) includes one £5m PWLB variable rate loan with a maturity date in March 2022. The rate of interest on this loan is reviewed by the Government every six months (in September and March).

3.11 A review of the Council's position in September 2016, suggests that it might be cost effective to repay the £5m PWLB variable rate loan in March 2017. This external borrowing would be replaced by utilising reserves and balances and working capital, reducing the amount held for investment and its associated risk. In early 2017, Arlingclose, the Council's Treasury Advisors will support the Council in determining the most appropriate approach in the light of market conditions at that time and the potential impact on the General Fund and Housing Revenue Account.

4. Detailed Analysis - Investments

4.1 The Council held on average £21.41 million available for investment in the period to 30 September 2016. This comprised working cash balances, capital receipts, earmarked reserves and developer contributions held pending use.

4.2 The Council's general policy objective is to invest its surplus funds prudently. The Council's investment priorities have continued to be:

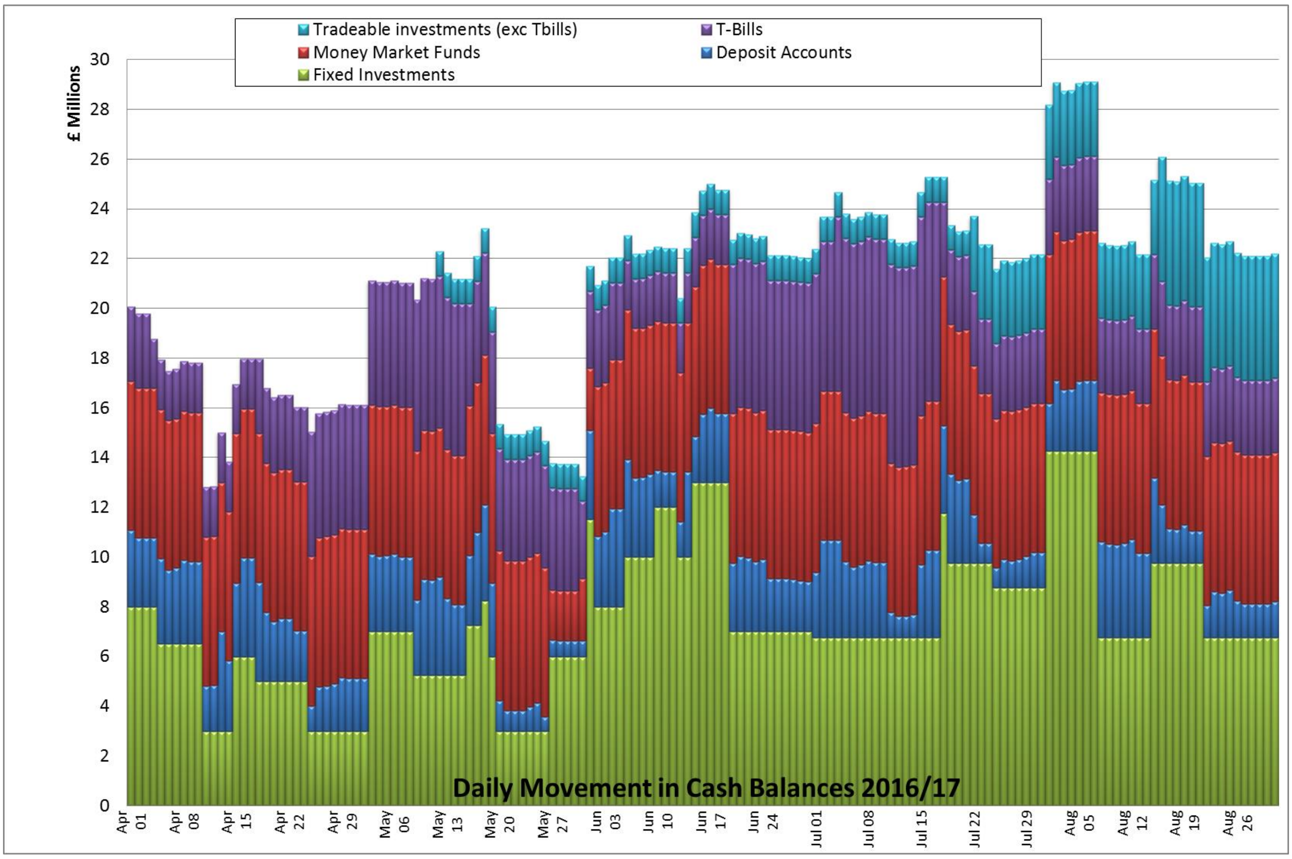
highest priority - security of the invested capital;
followed by - liquidity of the invested capital;
finally - an optimum yield commensurate with security and liquidity.

4.3 All of the Council's investments have been managed in-house. Security of capital has been maintained by following the counterparty policy set out in the Investment Strategy for 2016/2017. Investments during the period included:

- Fixed Term Deposits with the Debt Management Office (total £59.75 million)
- Fixed Term Deposits with other Local Authorities (total £8.75 million)
- Fixed Term Deposits with UK Banks/Building Societies (total £11.00 million)

- Investments in Money Market Funds (MMFs) (average balance held in year £5.77 million)
- United Kingdom Treasury Bills (average balance £3.79 million)
- Tradable Investments -Floating Rate Notes, Certificates of Deposit, Bonds (average balance £2.04 million)
- Deposit accounts with UK Banks (average balance held in year £1.26 million)
- Overnight deposits with the Council's banker, Lloyds Bank (average balance held in year £1.03 million)

The chart below shows the profile of total investments from 1 April to 30 September. The total invested ranged from £13.7m (end of May) to £29.1m (beginning of August).



4.4 The Council has approved the use of two MMFs, Deutsche Bank – Deutsche Global Liquidity Series and Goldman Sachs Asset Management International.

4.5 Counterparty credit quality was assessed and monitored with reference to credit ratings (a minimum long-term counterparty rating of A- across all three rating agencies Fitch, Standard and Poors, and Moody's applied); credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; any potential support mechanisms and share price.

4.6 In keeping with Government guidance on investments, the Council maintained a sufficient level of liquidity through the use of MMFs, overnight deposits and deposit accounts.

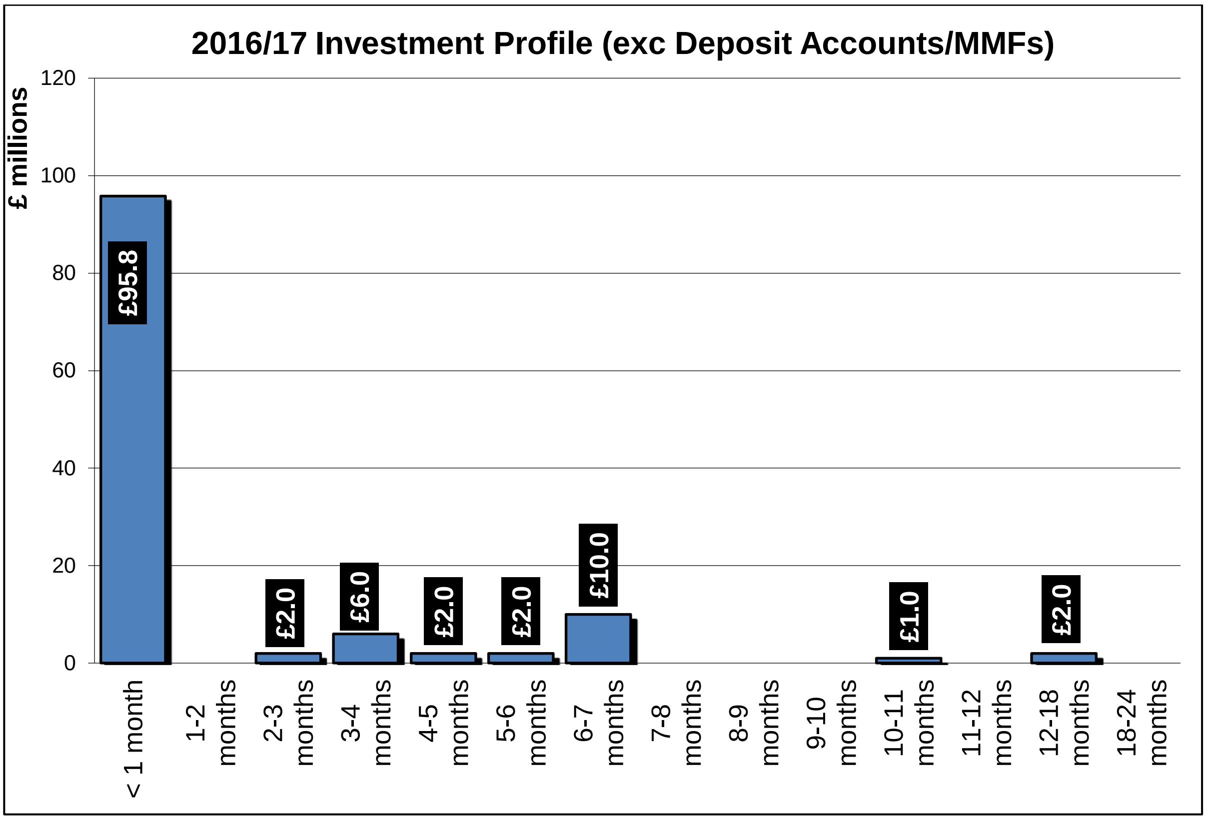
4.7 The Council sought to optimise returns commensurate with its objectives of security and liquidity. The Treasury Management Strategy anticipated an increase in the UK Bank Rate of 0.25% in the third quarter of 2016. However the UK economic outlook changed significantly on 23rd June 2016. The surprise result of the referendum on EU membership and the subsequent political turmoil prompted a sharp decline in household, business and investor sentiment. The repercussions of this plunge in sentiment on economic growth were judged by the Bank of England to be severe, and resulted in a cut in Bank Rate to 0.25%. Arlingclose forecast the Bank Rate to remain at this level for the remainder of the year, with a 40% possibility of a reduction close to zero.

4.8 Interest generated from investments in the year to date was £0.086 million and is projected to exceed the full year budget, £0.104 million.

4.9 The average rate of return from investments at the end of Quarter 1 and Quarter 2 is shown in the table below, along with comparative benchmark information.

	Lewes District Council	7 Day Libid
Average rate of investments in Q1 end 30 June 2016	0.56%	0.36%
Average rate of investments in Q2 end 30 Sept2016	0.52%	0.20%
Average rate of return Q1 to Q2	0.53%	0.28%

4.10 A full list of temporary deposits made in the year is given at Appendix B. All investments were made with UK institutions, and no new deposits were made for periods in excess of one year. The chart below gives an analysis of fixed term deposits by duration.



5. Counterparty Update

5.1 Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune although the fall in their share prices was less pronounced.

5.2 Credit rating agencies downgraded the UK's sovereign rating - Fitch by one band to AA from AA+, and Standard & Poor's (S&P) by two bands to AA from AAA. Fitch, S&P and Moody's have a negative outlook on the UK. S&P also downgraded the long-term ratings of the local authorities to which it assigns ratings as well as the long-term rating of the EU from AA+ to AA, the latter on the agency's view that it lowers the union's fiscal flexibility and weakens its political cohesion.

5.3 Moody's affirmed the ratings of nine UK banks and building societies but revised the outlook to negative for those that it perceived to be exposed to a more challenging operating environment arising from the 'leave' outcome.

5.4 There was no immediate change to Arlingclose's credit advice on UK banks and building societies as a result of the referendum result. Our advisor believes there is a risk that the uncertainty over the UK's future trading prospects will bring forward the timing of the next UK recession.

5.5 At 30 September 2016, the following UK institutions met the Council's investment criteria and were potential counterparties:

Bank of Scotland plc	Barclays Bank plc
Close Brothers Ltd	Goldman Sachs International Bank
HSBC Bank plc	Lloyds Bank plc
Santander UK plc	Coventry Building Society
Nationwide Building Society	

A number of other institutions also met the criteria, although there is very limited opportunity to place deposits with these institutions.

6. Internal Borrowing

6.1 Following the national reform of housing finance, since 1 April 2012 the Council has adopted a 'two pool' approach to the accounting treatment of loans. Under this approach, interest on any external borrowing in respect of expenditure on General Fund services is to be charged to the General Fund, and interest on any external borrowing in respect of the Council's housing stock (Housing Revenue Account (HRA)) is to be charged to the HRA. At the start of the year, all external borrowing was attributed to the HRA.

6.2 Where the HRA or General Fund has surplus cash balances which allow either account to have external borrowing below its level of CFR (internal borrowing), the approved Treasury Strategy explains that the rate charged on this internal borrowing will be based on the rate of interest applicable to a one-year maturity loan from the PWLB at the start of the financial year.

6.3 It is expected that an interest payment will be made from the HRA to the General Fund in 2016/2017, but the final amount will not be determined until the close of the year, dependent on the capital programme outturn for the year. The HRA capital programme at 30 September 2016 includes £2.66m in respect of the construction or acquisition of new properties, to be part-funded by borrowing but it is not expected to take new loans from the PWLB or other source. This constitutes internal borrowing by the HRA from the General Fund and an interest charge will be made as outlined above.

7. Compliance with Prudential Indicators

The Council can confirm that it has complied with its Prudential Indicators for 2015/2016, which were set in February 2016 as part of the Council's Treasury Management Strategy Statement. Actual borrowing has remained within the Authorised Limit for External Debt (£76.5m) and the Operational Boundary for External Debt (£71.0m).

8. Reporting and Training

8.1 The Deputy Chief Executive has reported the details of treasury management activity to each meeting of the Audit and Standards Committee and Cabinet held to date in 2016/2017.

8.2 All councillors tasked with treasury management responsibilities, including scrutiny of the treasury management function, are expected to be offered the opportunity to attend a local briefing session led by Arlingclose in the second half of 2016/2017.

8.3 The training needs of the Council's treasury management staff continue to be reviewed as part of the annual corporate staff appraisal/training needs assessment process for all Council employees. Staff continue to attend Arlingclose workshops, when appropriate to their needs, alongside colleagues from other local authorities during 2016/2017.

9. Investment Consultants

9.1 The Council appointed Arlingclose as its Treasury Adviser in 2012 following an open procurement. The agreement with Arlingclose was for an initial four-year term expiring on 30 June 2016, with the Council having the option to extend for a further year.

9.2 The Council exercised the option to extend this agreement, which will now come to an end on 30 June 2017. It is envisaged that in 2017 the Council will carry out a joint procurement exercise with Eastbourne Borough Council as part of the Joint Transformation Programme to appoint Treasury Advisor(s) for future years. This procurement may form part of a larger exercise covering all of the East Sussex district and borough councils.

Appendix A – Economic Background explained by Arlingclose

The preliminary estimate of Q2 2016 GDP showed reasonably strong growth as the economy grew 0.7% quarter-on-quarter, as compared to 0.4% in Q1 and year/year growth running at a healthy pace of 2.2%. However the UK economic outlook changed significantly on 23rd June 2016. The surprise result of the referendum on EU membership prompted forecasters to rip up previous projections and dust off worst-case scenarios. Growth forecasts had already been downgraded as 2016 progressed, as the very existence of the referendum dampened business investment, but the crystallisation of the risks and the subsequent political turmoil prompted a sharp decline in household, business and investor sentiment.

The repercussions of this plunge in sentiment on economic growth were judged by the Bank of England to be severe, prompting the Monetary Policy Committee to initiate substantial monetary policy easing at its August meeting to mitigate the worst of the downside risks. This included a cut in Bank Rate to 0.25%, further gilt and corporate bond purchases (QE) and cheap funding for banks (Term Funding Scheme) to maintain the supply of credit to the economy. The minutes of the August meeting also suggested that many members of the Committee supported a further cut in Bank Rate to near-zero levels (the Bank, however, does not appear keen to follow peers into negative rate territory) and more QE should the economic outlook worsen.

In response to the Bank of England's policy announcement, money market rates and bond yields declined to new record lows. Since the onset of the financial crisis over eight years ago, Arlingclose's rate outlook has progressed from 'lower for longer' to 'even lower for even longer' to, now, 'even lower for the indeterminable future'.

The new members of the UK government, particularly the Prime Minister and Chancellor, are likely to follow the example set by the Bank of England. After six years of fiscal consolidation, the Autumn Statement on 23rd November is likely to witness fiscal initiatives to support economic activity and confidence, most likely infrastructure investment. Tax cuts or something similar cannot be ruled out.

Whilst the economic growth consequences of BREXIT remain speculative, there is uniformity in expectations that uncertainty over the UK's future trade relations with the EU and the rest of the world will weigh on economic activity and business investment, dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment. These effects will dampen economic growth through the second half of 2016 and in 2017.

Meanwhile, inflation is expected to pick up due to a rise in import prices, dampening real wage growth and real investment returns. The August Quarterly *Inflation Report* from the Bank of England forecasts a rise in CPI to 0.9% by the end of calendar 2016 and thereafter a rise closer to the Bank's 2% target over the coming year, as previous rises in commodity prices and the sharp depreciation in sterling begin to drive up imported material costs for companies.

The rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes, concentrating instead on the negative effects of Brexit on economic activity and, ultimately, inflation.

Market reaction: Following the referendum result gilt yields fell sharply across the maturity spectrum on the view that Bank Rate would remain extremely low for the foreseeable future. The yield on the 10-year gilt fell from 1.37% on 23rd June to a low of 0.52% in August, a quarter of what it was at the start of 2016. The 10-year gilt yield has since risen to 0.69% at the end of September. The yield on 2- and 3-year gilts briefly dipped into negative territory intra-day on 10th August to -0.1% as prices were driven higher by the Bank of England's bond repurchase programme. However both yields have since recovered to 0.07% and 0.08% respectively.

On the other hand, after an initial sharp drop, equity markets appeared to have shrugged off the result of the referendum and bounced back despite warnings from the IMF on the impact on growth from 'Brexit' as investors counted on QE-generated liquidity to drive risk assets.

The most noticeable fall in money market rates was for very short-dated periods (overnight to 1 month) where rates fell to between 0.1% and 0.2%

Outlook for the remainder of 2016/17

The economic outlook for the UK has immeasurably altered following the popular vote to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU, particularly with regard to Single Market access.

The short to medium-term outlook as been more downbeat due to the uncertainty generated by the result and the forthcoming negotiations. Economic and political uncertainty will likely dampen or delay investment intentions, prompting lower activity levels and potentially a rise in unemployment. The downward trend in growth apparent on the run up to the referendum may continue through the second half of 2016, although some economic data has held up better than was initially expected, perhaps suggesting a less severe slowdown than feared.

Arlingclose has changed its central case for the path of Bank Rate over the next three years. Arlingclose believes any currency-driven inflationary pressure will be looked through by Bank of England policymakers. Arlingclose's central case is for Bank Rate to remain at 0.25%, but there is a 40% possibility of a drop to close to zero, with a small chance of a reduction below zero.

Gilt yields are forecast to be broadly flat from current levels, albeit experiencing short-term volatility.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

Global interest rate expectations have been pared back considerably. There remains a possibility that the Federal Reserve will wait until after November's presidential election, and probably hike interest rates in in December 2016 but only if economic conditions warrant.

In addition, Arlingclose believes that the Government and the Bank of England have both the tools and the willingness to use them to prevent market-wide problems leading to bank insolvencies. The cautious approach to credit advice means that the banks currently on the Authority's counterparty list have sufficient equity buffers to deal with any localised problems in the short term.

Appendix B – Term deposits made and/or maturing April to September 2016

Ref	Counterparty	From	To	Days	Principal	Int Rate
228115	Nationwide Building Society	18 Feb 16	18 Aug 16	182	1,000,000	0.71%
228315	Eastbourne Borough Council	24 Mar 16	1 Jun 16	69	2,000,000	0.50%
228415	Stafford Borough Council	24 Mar 16	1 Apr 16	8	2,000,000	0.50%
228516	Debt Management Office	1 Apr 16	5 Apr 16	4	5,000,000	0.25%
228616	Debt Management Office	5 Apr 16	11 Apr 16	6	3,500,000	0.25%
228716	Thurrock Borough Council	27 May 16	28 Nov 16	185	3,000,000	0.50%
228816	Debt Management Office	15 Apr 16	18 Apr 16	3	3,000,000	0.25%
228916	Debt Management Office	18 Apr 16	25 Apr 16	7	2,000,000	0.25%
229016	Debt Management Office	3 May 16	9 May 16	6	4,000,000	0.25%
229116	Debt Management Office	9 May 16	19 May 16	10	2,250,000	0.25%
229216	Debt Management Office	16 May 16	20 May 16	4	2,000,000	0.25%
229316	Debt Management Office	18 May 16	20 May 16	2	1,000,000	0.25%
229416	Debt Management Office	1 Jun 16	2 Jun 16	1	3,500,000	0.25%
229516	Debt Management Office	1 Jun 16	6 Jun 16	5	4,000,000	0.25%
229616	Debt Management Office	6 Jun 16	13 Jun 16	7	5,000,000	0.25%
229716	Nationwide Building Society	6 Jun 16	6 Dec 16	183	1,000,000	0.71%
229816	Thurrock Borough Council	1 Jul 16	5 Oct 16	96	1,750,000	0.46%
229916	Coventry Building Society	10 Jun 16	1 Jul 16	21	2,000,000	0.40%
230016	Debt Management Office	13 Jun 16	20 Jun 16	7	3,000,000	0.25%
230116	Debt Management Office	15 Jun 16	20 Jun 16	5	3,000,000	0.25%
230216	Coventry Building Society	18 Jul 16	25 Jul 16	7	2,000,000	0.35%
230316	Debt Management Office	18 Jul 16	19 Jul 16	1	2,000,000	0.25%
230416	Debt Management Office	18 Jul 16	25 Jul 16	7	1,000,000	0.25%
230516	Coventry Building Society	25 Jul 16	1 Aug 16	7	2,000,000	0.35%
230616	Debt Management Office	1 Aug 16	8 Aug 16	7	5,500,000	0.25%
230716	Coventry Building Society	1 Aug 16	8 Aug 16	7	2,000,000	0.35%
230816	Debt Management Office	15 Aug 16	22 Aug 16	7	3,000,000	0.15%
230916	Nationwide Building Society	18 Aug 16	20 Feb 17	186	1,000,000	0.40%
231016	Debt Management Office	1 Sep 16	5 Sep 16	4	2,000,000	0.15%
231116	Debt Management Office	1 Sep 16	12 Sep 16	11	2,000,000	0.15%
231216	Debt Management Office	15 Sep 16	19 Sep 16	4	3,000,000	0.15%

Glossary of Terms

Affordable Borrowing Limit	Each local authority is required by statute to determine and keep under review how much money it can afford to borrow. The Prudential Code (see below) sets out how affordability is to be measured.
Bank Rate	The main interest rate in the economy, set by the Bank Of England, upon which other rates are based.
Basis Point	A convenient way of measuring an interest rate (or its movement). It represents 1/100th of a percentage point, ie 100 basis points make up 1%, and 250 basis points are 2.5%. It is easier to talk about 30 basis points than "point three of one per cent".
Bonds	Debt instruments issued by government, multinational companies, banks, multilateral development banks and corporates. Interest is paid by the issuer to the bond holder at regular pre-agreed periods. The repayment date of the principal is set at the outset.
Capital Expenditure	Spending on the purchase, major repair, or improvement of assets eg buildings and vehicles
Capital Financing Requirement (CFR)	Calculated in accordance with government regulations, the CFR represents the amount of Capital Expenditure that it has incurred over the years and which has not yet been funded from capital receipts, grants or other forms of income. It represents the Council's underlying need to borrow.
Certificate of Deposit	A short-term marketable financial instrument typically issued for periods of less than six months by banks and building societies. Interest can be at a fixed or variable rate.
Chartered Institute of Public Finance and Accountancy (CIPFA)	CIPFA is one of the leading professional accountancy bodies in the UK and the only one that specialises in the public services. It is responsible for the education and training of professional accountants and for their regulation through the setting and monitoring of professional standards. CIPFA has responsibility for setting accounting standards for local government.
Counterparty	Institution with which the Council may make an investment
Credit Default Swaps	CDS are a financial instrument for swapping the risk of debt default and are effectively an insurance premium. Local authorities do not trade in CDS but trends in CDS prices are monitored as an indicator of relative confidence about the credit risk of counterparties.
Credit Rating	A credit rating is an independent assessment of the credit quality of an institution made by an organisation known as a rating agency. The rating agencies take many factors into consideration when forming their view of the likelihood that an institution will default on their obligations, including the institution's willingness and ability to repay. The ratings awarded typically cover the short term outlook, the long term outlook, as well as an assessment of the extent to which the parent company or the state will honour any obligations. The three main agencies providing credit rating services are Fitch Ratings, Moody's and Standard and Poor's.

Fixed Deposits	Loans to institutions which are for a fixed period at a fixed rate of interest
Gilts	These are issued by the UK government in order to finance public expenditure. Gilts are generally issued for set periods and pay a fixed rate of interest. During the life of a gilt it will be traded at price decided in the market.
Housing Revenue Account (HRA)	There is a statutory requirement for local authorities to account separately for expenditure incurred and income received in respect of the dwellings that they own and manage.
Internal Borrowing	The temporary use of surplus cash which would otherwise be invested, as an alternative to borrowing from the PWLB or a bank in order to meet the cost of capital expenditure.
Lenders' Option Borrower's Option (LOBO)	A long term loan with a fixed interest rate. On pre-determined dates (eg every 5 years) the lender can propose or impose a new fixed rate for the remaining term of the loan and the borrower has the 'option' to either accept the new fixed rate or repay the loan.
LIBID	The rate of interest at which first-class banks in London will bid for deposit funds
Minimum Revenue Provision (MRP)	The minimum amount which must be charged to an authority's revenue account each year and set aside as provision for the repayment of debt.
Operational boundary	This is the most likely, prudent view of the level of gross external indebtedness. A temporary breach of the operational boundary is not significant.
Prudential Code/Prudential Indicators	The level of capital expenditure by local authorities is not rationed by central government. Instead the level is set by local authorities, providing it is within the limits of affordability and prudence they set themselves. The Prudential Code sets out the indicators to be used and the factors to be taken into account when setting these limits
Public Works Loan Board (PWLB)	A central government agency which provides long- and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow.
Treasury Management Strategy Statement (TMSS)	Approved each year, this document sets out the strategy that the Council will follow in respect of investments and financing both in the forthcoming financial year and the following two years.

LEWES DISTRICT COUNCIL

ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2016

EXECUTIVE SUMMARY

Purpose of the letter

This Annual Audit Letter summarises the key issues arising from the work that we have carried out in respect of the financial year ended 31 March 2016. It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public. It will be published on the website of Public Sector Audit Appointments Limited.

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 National Audit Office's Code of Audit Practice (the Code), and 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.

We are also required to report where we have exercised our statutory powers under the Local Audit and Accountability Act 2014 in any matter, and on 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
27 October 2016

Audit conclusions

FINANCIAL STATEMENTS

We issued an unqualified true and fair opinion on the financial statements on 7 October 2016. We were unable to meet the national deadline of 30 September 2016 due to misstatements in the Cash Flow Statement and supporting notes and outstanding working papers relating to non-current asset revaluation movements. These issues were fully resolved before we issued our audit opinion.

We reported our detailed findings to the Audit and Standards Committee on 26 September 2016, and issued an updated report to the Committee on 6 October 2016 following resolution of the above issues.

We identified no significant deficiencies in internal controls. We did, however, report on areas where improvements in controls could be made including the related party transaction declaration process, documentation around council tax discounts, and access arrangements for key IT systems.

USE OF RESOURCES

We issued an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 7 October 2016.

We are satisfied that the Council has adequate arrangements in place for budget setting and budget monitoring, and the Council has identified sufficient savings over the next four years to balance its budget. Many of these savings will arise from the ongoing Joint Transformation Programme with Eastbourne Borough Council, and we are satisfied that effective governance arrangements are in place to oversee delivery of this project.

We reviewed governance arrangements in place in respect of the Council's New Homes Project, and have made a number of recommendations for improvement that should be applied to future projects.

EXERCISE OF STATUTORY POWERS

We have not exercised our statutory powers and have no matters to report.

GRANT CLAIMS AND RETURNS CERTIFICATION

Our review of grant claims and returns for 2015/16 is in progress and the results will be reported upon completion of this work.

FINANCIAL STATEMENTS

OPINION	We issued an unqualified true and fair opinion on the financial statements on 7 October 2016.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes an assessment of whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates, and the overall presentation of the financial statements.

Our assessment of risks of material misstatement

Our audit was scoped by obtaining an understanding of the Council and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and directing of the efforts of the audit team.

REVENUE RECOGNITION	RESPONSE	FINDINGS
Risks of fraud in revenue recognition may arise from the use of inappropriate accounting policies, failure to apply the Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue.	Our review of revenue recognition has focused on testing the completeness, existence and accuracy of fees and charges to check that income has been recorded in the correct period and that all income that should have been recorded has been recorded. This included testing an increased sample of income received and debtor accruals. We also refreshed our understanding of the Council's internal control environment for fees and charges, including how this operates to prevent loss of income and ensure that income is recognised in the correct accounting period.	No issues were identified by our testing of revenue from fees and charges.

FINANCIAL STATEMENTS
Continued

VALUATION OF LAND AND BUILDINGS	RESPONSE	FINDINGS
The valuation of operational land and buildings included in Property, Plant and Equipment (PPE) is estimated based on market values for existing use or depreciated replacement cost (DRC). In addition, the Code of Practice on Local Authority Accounting 2015/16 ('the Code') introduced a change in the basis of valuation of surplus assets and investment properties under International Financial Reporting Standard (IFRS) 13 to a 'highest and best use' valuation. Given the significant amounts involved, there is an inherent risk that the basis of valuation for these assets may not be appropriate or may not be supported by available valuation data, and this risk is further increased where requirements have changed. During 2015/16 the Council appointed an external valuer to carry out a full five-yearly valuation of its council dwellings, and also commissioned a valuation of all surplus assets and investment properties using the new approach. The result of the revaluation was a net upwards movement of £40.7 million on Council dwellings, a net upwards £3.3 million on other PPE, and a net downwards movement of £0.1 million on investment properties.	We reviewed the valuations provided and the valuation methodology applied, and confirmed that the basis of valuation for assets valued in year was appropriate based on the Code requirements. We compared the valuations to expected movements using available market information, and also reviewed assets not revalued in year for evidence of material movements which would need to be accounted for. Finally, we agreed all significant revaluation movements to supporting documentation, and checked that these movements were correctly accounted for and presented within the financial statements.	We concluded that the basis of the valuations in year were appropriate. We noted that the increase in valuation of council dwellings of 23.5% was significantly higher than our expectation based upon observable data such as house price indices. We discussed this with the external valuer, and confirmed that the reason for this increase was that the prior year valuation was understated, having been based upon an annual desktop refresh of a 2010 valuation. Under the circumstances we were content that the Council had correctly treated the change in valuation as a change in accounting estimate within its financial statements. We agreed with the Council's conclusion that there was no material movement in the valuation of PPE not revalued during the year. We identified a small number of minor calculation errors made in calculating and posting revaluation movements to the ledger. These were not material, and were mostly corrected in the final financial statements - the remaining error is included within Audit Differences on page 6 of this report.

FINANCIAL STATEMENTS
Continued

PENSION LIABILITY	RESPONSE	FINDINGS
The pension liability comprises the Council's share of the market value of assets held in the East Sussex Pension Fund and the estimated future liability to pay pensions. An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation. At 31 March 2016 the net pension liability decreased by £8.6 million, mainly as a result of a lower discount rate applied to the liabilities by the actuary.	We reviewed the reasonableness of the assumptions applied by comparing these to the expected ranges provided by an independent consulting actuary. The key changes to the financial assumptions relate to: • A reduction in the pension increase rate from 2.4% to 2.2% • A reduction in the salary increase rate from 4.3% to 4.2% • An increase in the discount rate from 3.2% to 3.5% (to place a current value on the future liabilities through the use of a market yield of corporate bonds).	We were satisfied that the assumptions used were not unreasonable or outside of the expected ranges.

ALLOWANCE FOR NON-COLLECTION OF RECEIVABLES	RESPONSE	FINDINGS
The Council estimates the proportion of debt due that it may not be able to recover and provides against this debt. The largest allowances relate to housing benefit overpayments and housing rent arrears. The allowance for housing benefit overpayments increased by £278,000 to £681,000, against a total overpayments balance of £2.0 million. The allowance for housing rent arrears increased by £165,000 to £494,000, against a total arrears balance of £662,000.	We reviewed the methodology and assumptions used by the Council is estimating its allowance of non-collection of receivables. For housing benefits overpayments, we were satisfied that the impairment allowance was based on the age of the debts and that the underlying assumptions were reasonable, although we found a minor error in the calculation resulting in an understatement of the allowance by £74,000. For housing rent arrears, we were satisfied that the impairment allowance was based on the size of the debt and the nature of the debtor and that the underlying assumptions were reasonable.	Overall we concluded that the impairment allowances for receivables were reasonable. We identified one minor calculation error which is included within Audit Differences on page 6 of this report.

FINANCIAL STATEMENTS
Continued

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements.

We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements.

Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The materiality for the financial statements as a whole was set at £1.4 million. This was determined with reference to a benchmark of gross expenditure (of which it represents two per cent) which we consider to be one of the principal considerations for the Council in assessing the financial performance.

We agreed with the Audit and Standards Committee that we would report all individual audit differences in excess of £28,000.

Audit differences

There were no differences that were corrected in the financial statements that affected the reported surplus for the year, although a number of amendments to classifications and disclosures were made in the final financial statements. Of these, the items considered material were as follows:

- Material misstatements in the Cash Flow Statement and associated notes relating mainly to the treatment of interest received and paid, capital grants received and collection fund balances
- Reclassification of £2 million of Treasury notes from cash and cash equivalents to short-term investments.

Our audit also found 2 audit differences not corrected in the final financial statements that impact on the reported surplus:

- Revaluation increases of £130,000 which were posted to the revaluation reserve instead of the Comprehensive Income and Expenditure Statement.
- A £74,000 understatement of the allowance for non-collection of receivables as a result of errors in the aged debtor analysis.

Correcting for these misstatements would have resulted in the Council reporting a £56,000 higher surplus for the year.

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

Other matters we report on

Annual Governance Statement

We were satisfied that the Annual Governance Statement was not misleading or inconsistent with other information we were aware of from our audit.

Narrative reporting

Local authorities are required to include a Narrative Report in the Statement of Accounts to offer interested parties an effective guide to the most significant matters reported in the accounts. The Narrative Report should be fair, balanced and understandable for the users of the financial statements.

We were satisfied that the information given in the Narrative Report was consistent with the financial statements.

FINANCIAL STATEMENTS
Continued

Internal controls

We did not find any significant deficiencies in internal controls during the course of our audit. However, a number of areas for improvement were identified which we discussed with management, covering:

- Related party transaction declarations
- Documentation surrounding council tax discounts
- Administrator access to IT systems, and password controls within the Icon receipting system.

Whole of Government Accounts

Auditors are required to review Whole of Government Account (WGA) information prepared by component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding certain non current assets); liabilities (excluding pension liabilities); income or expenditure.

The Council falls below the threshold for review and there is no requirement for further work other than to submit the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure. We submitted this on 7 October 2016, in advance of the national deadline.

USE OF RESOURCES

CONCLUSION	We issued an unqualified conclusion on the arrangements for securing economy, efficiency and effectiveness in its use of resources on 7 October 2016.

Scope of the audit of use of resources

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources based on the following reporting criterion:

- In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

As part of reaching our overall conclusion we consider the following sub criteria in our work: informed decision making, sustainable resource deployment, and working with partners and other third parties.

Our assessment of significant risks

Our audit was scoped by our knowledge brought forward from previous audits, relevant findings from work undertaken in support of the opinion on the financial statements, reports from the Council including internal audit, information disclosed or available to support the Annual Governance Statement and Narrative Report, information available from the risk registers and supporting arrangements, and other information brought to our attention during the course of the audit.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and directing of the efforts of the audit team.

MEDIUM TERM FINANCIAL STRATEGY	RESPONSE	FINDINGS
The Council's Medium Term Financial Strategy (MTFS) was last refreshed in February 2016, and covers the period up to 2019/20. Over this period, the Council expects the net budget requirement to reduce from £13.1 million to £11.1 million, and that by 2018/19 its revenue support grant will cease. The Council plans to balance its finances over the four year period by delivering savings of £2.821m, which will sit alongside projected growth in income from council tax. Savings schemes totalling £3.186 million have already been identified. However, there remains a risk that the Council does not have appropriate arrangements to continue to remain financially sustainable over the period of the MTFS.	We reviewed the Council's plans to close the budget gaps though savings, efficiencies and income growth. The Council had budgeted to spend £11.3 million on General Fund services in in 2015/16. The actual cost of services (before technical accounting adjustments) was lower than budget, at £10.7 million. This meant that the Council was able to increase its general fund balance by £0.5 million (to £2.1 million), and it also increased its earmarked general fund reserves from £10.3 million to £10.7 million at 31 March 2016. The Council achieved £570,000 against its planned £561,000 savings target in 2015/16, which was largely due to the second phase of its organisational development plans and vacancy savings.	The Council understands the risks involved across its financial planning assumptions and that these will continue to require careful management. We are satisfied that the MTFS reflects known savings and cost pressures and that the key underlying assumptions regarding reductions in central government funding and income from taxation are not unreasonable. We are satisfied that the Council has adequate arrangements in place for budget setting and budget monitoring. The Council has a track record of delivering underspends in the general fund and taking action to minimise the impact of overspends, and the balances in the General Fund and earmarked reserves at year-end act as a potential buffer against future risks.

USE OF RESOURCES
Continued

JOINT TRANSFORMATION PROGRAMME	RESPONSE	FINDINGS
The Council is currently in the process of undergoing a major Joint Transformation Programme (JTP) with Eastbourne Borough Council to provide more flexible, customer focused and cost effective services, both in the provision of frontline services and the organisation of back office functions.	We reviewed the arrangements in place for the Council to make informed decisions in relation to the programme. We also reviewed the JTP business case, including sensitivity analysis of future outcomes. The business case projects total savings of £2.8 million for the two councils, with an equivalent reduction of 79 full time equivalent posts across both councils. The Council's share of these planned savings is £1.6 million over the four year MTFS period. Total combined investment required specifically to deliver the JTP is £5.6 million, of which the Council's share is approximately £3.2 million. These costs will be met from the Council's strategic change earmarked reserve, which stood at £3.657 million at 31 March 2016.	Effective governance arrangements have been established to oversee delivery of the JTP with Eastbourne Borough Council. Risks associated with the project regarding the potential for ineffective change management processes, governance arrangements and engagement and consultation procedures, as well as the risk of the transformation not delivering the financial savings in the timescales required by the MTFS, are being appropriately managed. The projected savings and investment from the JTP have been adequately considered and factored into planning assumptions.

USE OF RESOURCES
Continued

NEW HOMES PROJECT	RESPONSE	FINDINGS
In July 2015 the Council signed a Conditional Sale Agreement and Profit Share and Project Management Agreement with a private sector consortium, in respect of a project to raise funds to build a number of new Council homes across the district, and to bring regenerative benefits to a number of sites. This was meant to have been a significant project involving the sale of a number of the Council's surplus land assets, and substantial investment from both the Council and the consortium. In February 2016 a decision was taken by Cabinet to terminate this agreement as a result of the non-satisfaction of title and ground conditions in respect of key sites within the project. Given the scale of the project, we identified a risk to our use of resources opinion if due process was not followed by the Council in entering into the contract and terminating the contract.	We have reviewed the governance and decision making processes followed by the Council in entering into the Conditional Sale Agreement, and subsequently terminating the agreement. The aim was to determine whether the Council's own internal processes were followed and whether these were sufficient to ensure that appropriately informed decisions were made. This involved a review of relevant documents and Cabinet minutes, and discussions with management.	Overall the Council followed its own internal processes in making decisions about this project, and legal advice was sought on key decisions made. However, we identified scope for improvement in arrangements underpinning the project and agreed an action plan with the Council for lessons learnt from this project to be applied to future projects of this size and nature. Recommendations were raised with management in respect of : • Earlier disclosure of potential development sites • Public consultation in preliminary stages • Updating the Property Strategy and Asset Management Plan • A more structured approach to carrying out due diligence checks. The actions relate largely to good practice that could be implemented rather than significant weaknesses in processes.

EXERCISE OF STATUTORY POWERS

REPORT BY EXCEPTION	We have no matters to report by exception.

Use of statutory powers

We have not exercised our statutory powers and have no matters to report.

Audit certificate

We issued the audit certificate to close the audit for the year ended 31 March 2016 on 7 October 2016.

GRANT CLAIMS AND CERTIFICATION

CERTIFICATION WORK	Our review of grant claims and returns for 2015/16 is in progress and the results will be reported upon completion of this work.

Housing benefit subsidy claim

Public Sector Audit Appointments Ltd has a statutory duty to make arrangements for certification by the appointed auditor of the annual housing benefit subsidy claim.

Our audit of the 2014/15 housing benefits subsidy claim identified a particularly high level of error within the cases tested, across all claim types. Full details of these errors were reported to the Audit and Standards Committee at their meeting on 20 June 2016. In addition, the Council was unable to fully reconcile benefit granted per its benefit software to benefit paid per its benefit software, and was unable to provide evidence that the software supplier's claim validation checking process had been fully complied with. As a result of these issues, and the significant additional work required by both the Council and the audit team, certification of the claim was delayed by several months.

Our work on the 2015/16 housing benefits subsidy claim is currently in progress. The deadline for the completion of this work is 30 November 2016, however discussions with officers have indicated that this work is likely to be delayed due to the level of errors encountered in previous years, which increases the total sample size to be tested this year. We remain in dialogue with the Council with the aim of completing this work as early as practically possible.

Pooling of housing capital receipts return

The Council has requested that we undertake a 'reasonable assurance' review, based on the instructions and guidance provided by the Department of Communities and Local Government (DCLG), for its pooling of housing capital receipts return for 2015/16. The deadline for completion of this work is 30 November 2016.

This assurance review is undertaken outside of our appointment by Public Sector Audit Appointments Ltd, and is instead covered by a tripartite agreement between the Council, DCLG and the auditor.

Our review of the 2014/15 return was completed before the deadline and identified no significant issues.

APPENDIX

Reports issues

We have issued the following reports since our previous annual audit letter.

REPORT	DATE
Audit Planning Report 2015/16	24 February 2016
Planning Letter 2016/17	18 April 2016
Grant Claims and Returns Certification 2014/15	21 April 2016
Audit Completion Report 2015/16	14 September 2016
Audit Completion Report 2015/16 (Updated)	6 October 2016

Fees

We reported our original fee proposals in our Audit Plan.

AUDIT AREA	PLANNED FEES	FINAL FEES
Code audit	46,418	46,418
Certification of housing benefits subsidy claim	14,960	14,960(1)
Fee for audit services	61,378	61,378
Audit related services:		
- Certification of pooling of housing capital receipts return	1,500	1,500(1)
Non audit related services:		
- None	-	-

(1) Fees for our grant certification work will be finalised following completion of the work.

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LEWES DISTRICT COUNCIL

REPORT TO THE AUDIT AND STANDARDS COMMITTEE

Audit for the year ended 31 March 2016 - Issued to the Audit and Standards Committee - 6 October 2016

PURPOSE AND USE OF THIS REPORT

We present our report to the Audit and Standards Committee which details the key findings arising from the audit for the attention of those charged with governance. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two way communication throughout the audit process.

As auditors we are responsible for performing our audit in accordance with International Standards on Auditing (UK & Ireland) which provide us with a framework which enables us to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and providing our value for money conclusion. As the purpose of the audit is for us to express an opinion on the financial statements and provide a value for money conclusion, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

This report has been prepared solely for the use of the Audit and Standards Committee. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person.

We would like to thank staff for their co-operation and assistance during the audit and throughout the period.

CONTENTS

SUMMARY

AUDIT SCOPE AND OBJECTIVES

- We were not able to complete our audit by the national deadline of 30 September 2016 due to misstatements in the Cash Flow Statement and supporting notes and outstanding working papers relating to non-current asset revaluation movements.
- These issues have now been resolved and we have completed our audit procedures in accordance with the planned scope.
- Our materiality level decreased from £1.6 million (as reported in our planning report dated 24 February 2016) to £1.4 million, as a result of a reduction in gross expenditure from previous years.
- No new significant audit risks were identified subsequent to our audit planning report to you, although we have expanded the significant risk in relation to valuation of property, plant and equipment to also cover investment properties. Further detail is provided on page 8.
- There were no other significant changes to our planned audit approach nor were any restrictions placed on our work.

AUDIT OPINION

- We are proposing to issue an unqualified opinion on the financial statements for the year ended 31 March 2016.
- We have no significant matters to report in relation to the Annual Governance Statement, although we have made some recommendations for improvement in Appendix III.
- We are satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources and we anticipate issuing an unqualified value for money conclusion for the year ended 31 March 2016. However, we have made a number of recommendations for improvement following our review of governance arrangements in respect of the New Homes Project, as set out in Appendix III.

KEY AUDIT AND ACCOUNTING MATTERS

- There are no differences to be corrected in the final Statement of Accounts that affect the reported surplus for the year. A number of amendments to classifications and disclosures have been made, as detailed within this report.
- There are two unadjusted audit differences identified by our audit work which would increase the surplus on the provision of services by £56,000, if adjusted.
- We found the Narrative Report to be fair, balanced and understandable, and to be generally compliant with relevant guidance. A small number of recommendations for improvement have been made in Appendix III.
- We identified no significant deficiencies in internal control. Other deficiencies and recommendations are set out in Appendix III

OTHER MATTERS FOR THE ATTENTION OF THE AUDIT AND STANDARDS COMMITTEE

- The Council is below the audit threshold for a full assurance review of the Whole of Government Accounts (WGA) return.
- Our observations on the quality of the audit and our audit independence and objectivity and related matters are set out in Appendices VIII and V.

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT AUDIT RISKS

We reported our risk assessment, which brought to your attention areas that require additional or special audit consideration and are considered significant audit risks, in our 2015/16 audit planning report dated 24 February 2016. These significant risks have been highlighted in red and findings have been reported in the following table.

We have since undertaken a more detailed assessment of risk following the completion of our review of the Council's internal control environment and draft financial statements, and we have not identified any additional significant risks. However, we have extended the significant risk over the valuation of property, plant and equipment to also cover the Council's investment properties.

NATURE OF RISK	RISK DESCRIPTION AND RELATED CONTROLS	HOW THE RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
MANAGEMENT OVERRIDE OF CONTROLS	Auditing standards presume that a risk of management override of controls is present in all entities. By its nature, there are no controls in place to mitigate the risk of management override.	We reviewed the appropriateness of journal entries and other adjustments to the financial statements. We also reviewed accounting estimates for evidence of possible bias and obtained an understanding of the business rationale of significant transactions that appeared to be unusual.	No issues have been identified in our review of the appropriateness of journal entries and other adjustments made to the financial statements. Our work on accounting estimates has not identified any evidence of management bias. Further details are provided on pages 12 to 15 of this report.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

NATURE OF RISK	RISK DESCRIPTION AND RELATED CONTROLS	HOW THE RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
REVENUE RECOGNITION	Auditing standards presume that there are risks of fraud in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue. In particular, at the planning stage we considered there to be a significant risk over the completeness, existence and accuracy of income in relation to fees and charges recorded in the Comprehensive Income & Expenditure Statement (CIES).	Our review of revenue recognition has focused on testing completeness, existence and accuracy of fees and charges across all service areas within the CIES. We refreshed our understanding of the Council's internal control environment for fees and charges, including how this operates to prevent loss of income and ensure that income is recognised in the correct accounting period. We carried out focussed substantive testing on a sample of income received and debtor accruals to check whether accounting policies had been correctly applied in determining the point of recognition of income.	No issues have been identified by our testing of revenue from fees and charges.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

NATURE OF RISK	RISK DESCRIPTION AND RELATED CONTROLS	HOW THE RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
PROPERTY, PLANT AND EQUIPMENT (PPE) AND INVESTMENT PROPERTY VALUATIONS	During 2015/16 the Council appointed an external valuer to carry out a full five-yearly valuation of its Council dwellings. Other land and buildings were last revalued at 1 April 2014, although the Code of Practice on Local Authority Accounting 2015/16 in the United Kingdom (the Code) requires management to assess whether there has been a material change in the value of its assets which should be accounted for. In addition, the adoption of IFRS 13 *Fair Value Measurement* in 2015/16 now requires surplus assets and investment properties to be valued at fair value based on their 'highest and best' use, where there are no restrictions to the market, which may differ from the values previously used (for example 'existing use' values for surplus assets). Due to the significant value of land and buildings, and the high degree of estimation uncertainty, we considered there to be a significant risk of material misstatement in respect of the valuation of PPE and investment properties. At the planning stage, we also identified a significant risk in relation to the accuracy of presentation of PPE and related revaluation and impairment transactions posted to the CIES and reserves, as a result of a significant level of misstatement identified during the prior year audit.	For formal valuations carried out in the year, we reviewed the instructions provided to the valuer and the valuer's skills and expertise in order to determine if we could rely on the management expert used. We checked that the basis of valuation for assets valued in year is appropriate based on the Code requirements. We also considered whether there have been any material movements in the value of non-current assets between valuation dates and year end, which would need to be accounted for. We reviewed the Council's listing of non-current assets at year-end, to check whether all surplus assets and investment properties have been revalued at fair value. We also reviewed a sample of other assets which were reclassified to surplus assets and investment properties during the year, to ensure that their new classification (and therefore valuation methodology) was appropriate. Finally, we agreed all significant revaluation movements to supporting documentation, and checked that these movements have been correctly accounted for and presented within the PPE note, CIES, and reserves.	Our work on valuations estimates is covered in more detail on pages 12 to 13 of this report. We noted that there were inconsistencies between the downward revaluation movement on investment properties recognised on the balance sheet (£162,000), and the charge taken to the CIES (£335,000) in the draft Statement of Accounts. These have been corrected in the final Statement of Accounts. There was also a misstatement in the posting of revaluation movements to the accounts, with the result that the credit to the CIES is understated by £130,000 and the credit to the revaluation reserve is overstated by £130,000. This has been reported as an unadjusted difference in Appendix II.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

OTHER AUDIT RISKS AND ACCOUNTING ISSUES

We report below our findings of the work designed to address all other risks identified in our 2015/16 audit planning report and any other relevant audit and accounting issues identified as a result of our audit: ■ **Normal risk** ■ **Other issue**

NATURE OF ISSUE	WORK PERFORMED AND FINDINGS	CONCLUSION
OFFICERS' REMUNERATION NOTE	We reviewed the officers' remuneration note against supporting documentation such as payslips. We checked that all Code requirements have been complied with through the completion of a disclosure checklist. We gained assurance over the completeness of exit package disclosures through discussion with management, review of Cabinet and Council minutes, and review of relevant ledger codes. During 2015/16, the Council has entered into arrangements with Eastbourne Borough Council for the sharing of certain senior officers. Within the officers' remuneration note, the Council has correctly excluded those senior officers who are employees of Eastbourne Borough Council from the senior officers table, in line with Code requirements, but has included sufficient narrative underneath the table to explain the arrangements and the amounts recharged to the Council. During our testing of exit packages, we identified one individual package of approximately £23,000 which has been disclosed in 2015/16, but was agreed on 28 March 2015 and should therefore have been disclosed in the prior year.	Management has included additional narrative below the exit packages note in the final Statement of Accounts to explain the amount which should have been accrued in the prior year. We identified no other issues within the officers' remuneration note. We consider the additional narrative disclosures around the arrangements with Eastbourne Borough Council to be a positive step in ensuring transparency and comparability with previous periods and other authorities.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

NATURE OF ISSUE	WORK PERFORMED AND FINDINGS	CONCLUSION
FINANCIAL INSTRUMENT DISCLOSURES	We reviewed the disclosures in the draft Statement of Accounts against supporting working papers, and other parts of the financial statements. We have completed a disclosure checklist to gain assurance over the completeness and presentation of the financial instrument disclosures.	Our audit identified a few presentational issues with the financial instruments note in the draft financial statements. This included an incorrect description for a £3.75 million available for sale financial asset that was classified as cash rather than cash equivalents. This has been corrected in the final Statement of Accounts.
ACCOUNTING FOR TRANSFERS BETWEEN ASSET CATEGORIES	During the year, the Council reclassified a small number of its property, plant and equipment assets to investment properties, as a result of a change in use. The total value of assets reclassified by the Council was £1.339 million, which was equivalent to the 'cost or valuation' value of the relevant assets at the point of transfer. However, the Council did not take account accumulated depreciation of £39,000 which should also have been transferred.	As a result of this issue, the value of assets transferred into investment properties was overstated by £39,000. Since all investment property assets were revalued at 31 March 2016, there is no impact on the year-end carrying value, but consequently the downwards revaluation movement is also overstated by £39,000. This impacts on a number of other notes to the financial statements, such as the adjustments between accounting basis and funding basis under regulations note and the notes to the Cash Flow statement. This misstatement has been corrected in the final Statement of Accounts.
CLASSIFICATION OF INVESTMENTS AND CASH DEPOSITS	We reviewed the classification of cash equivalents and investments at year end.	We found that £1.995 million of treasury bills with maturity dates longer than three months were incorrectly classified as cash equivalents instead of short term investments. This has been corrected in the final Statement of Accounts.
CASH FLOW STATEMENT	We reviewed the Cash Flow Statement and associated notes and agreed to other parts of the Statement of Accounts and supporting working papers.	Our audit identified a number of misstatements in the Cash Flow Statement and associated notes relating mainly to the treatment of interest received and paid, capital grants received and collection fund balances. These have been corrected in the final Statement of Accounts, including a reclassification of some of the comparative figures. These is a remaining unreconciled balance of £108,000 (£476,000 in the prior year) which is described as 'other non cash movements' in note 21 to the financial statements. As this difference is not material, we have not investigated it further.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

NATURE OF ISSUE	WORK PERFORMED AND FINDINGS	CONCLUSION
RELATED PARTY TRANSACTIONS	We reviewed the Council's procedures for identifying related party transactions for disclosure in the related parties note, including signed declaration forms from members and senior officers. We carried out Companies House checks for a sample of members and senior officers and checked the completeness of interests included in the declaration forms. We also considered the completeness of related party disclosures based on knowledge gained from our other audit work. The Council has disclosed the fact that it has had a number of related party transactions with other public bodies, and has also awarded grants to a number of organisations in which members have interests. Detailed disclosure has also been given of related party transactions in respect of University Technical College and Wave Leisure Ltd. No disclosure was made, however, in respect of transactions and year-end balances with Eastbourne Borough Council. Whilst transactions between local authorities do not usually require specific disclosure, our view is that the fact that the two authorities share key management personal means that full disclosure should be made.	The Council generally has adequate procedures for identifying related party transactions. However, we note that signed declarations were not received from three members in the year end declaration process lead by the finance team for 2015/16. Whilst we have been able to carry out procedures to satisfy ourselves that there are no material undisclosed related party transactions in relation to these members, this does represent a weakness in internal controls and we have reported a recommendation in Appendix III. Where transactions have taken place (or balances are held) with organisations outside of the public sector which meet the definition of related parties, the Code requires full disclosure of the amounts involved. The generic disclosure within the draft Statement of Accounts concerning grants awarded does not, therefore, currently comply with these requirements. However, our audit work indicates that the value of such transactions is very low (less than £1,000), and is therefore unlikely to be material to either party. We therefore recommend that management reviews this note to ensure that disclosures are up to date, which should include removing any disclosures which are immaterial or no longer relevant. At our request management has disclosed material year-end balances with Eastbourne Borough Council within the final Statement of Accounts.
FRAUD AND ERROR	We have enquired of management regarding any instances of fraud in the period, and considered throughout the audit the possibility of material misstatements due to fraud or error. We are not aware of any instances of fraud other than housing benefit and housing tenancy fraud committed against the Council.	Our audit procedures have not identified any errors due to fraud. Non-trivial errors identified are described elsewhere within this report, and summarised at Appendix II.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

ACCOUNTING ESTIMATES

Our views on significant estimates, including any valuations of material assets and liabilities, arrived at in the preparation of your financial statements are set out below.

We have assessed how prudent or aggressive the estimate is based on the level of caution applied by management in making the estimate under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenditure are not understated.

ESTIMATES

PROPERTY, PLANT & EQUIPMENT (PPE) AND INVESTMENT PROPERTY VALUATIONS

Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) and investment properties is not materially different to the current value or fair value at the Balance Sheet date.

The valuation for housing dwellings and land and buildings included in PPE is a management estimate based on market values or depreciated replacement cost (DRC). Management uses external valuation data to assess whether there has been a material change in the value of classes of assets and periodically (every five years) employs an external expert (valuer) to undertake a full valuation. Management also relies upon its external valuer to assess material valuation changes based on observable data (asset sales and building contract prices).

In 2015/16, IFRS 13 *Fair value measurement* introduced a change in the basis of valuation of surplus assets and investment properties, from existing use value (in the case of surplus assets) or market value (in the case of investment properties) to fair value based on 'highest and best use'. This means that valuations may be significantly different in certain circumstances.

AUDIT FINDINGS AND CONCLUSIONS

HRA Properties

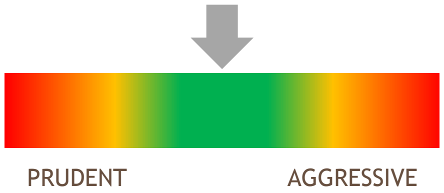
The Council engaged an external valuer to carry out a full 5-yearly valuation of its HRA properties on a beacon basis as at 1 April 2015, followed by a desktop refresh at 31 March 2016. In total, this resulted in a valuation increase of 23.5%, after allowing for depreciation and other movements. This is significantly higher than our expectation based upon observable data such as house price indices.

Discussions with the valuer have confirmed that the reason for this increase is that the prior year valuation was understated, having been based upon an annual desktop refresh of a 2010 valuation.

We are content that the Council has correctly treated the change in valuation as a change in accounting estimate, by accounting for the movement prospectively in year, rather than restating the prior year balances.

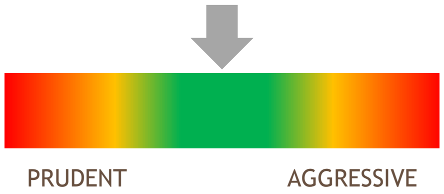
However, this does highlight potential weaknesses within the annual desktop revaluation process, and this is something which management may wish to discuss with the valuer going forwards.

Our audit also identified a calculation error which resulted in the HRA valuation and revaluation reserve being understated by £244,000. The Council has amended this in the final Statement of Accounts.



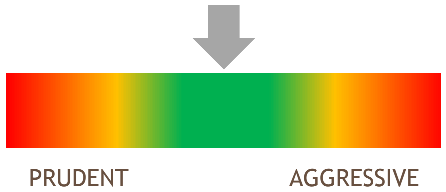
KEY AUDIT AND ACCOUNTING MATTERS
Continued

ESTIMATES	AUDIT FINDINGS AND CONCLUSIONS
PROPERTY, PLANT & EQUIPMENT (PPE) AND INVESTMENT PROPERTY VALUATIONS (CONTINUED)	**General Fund Properties** For general fund properties, the Council commissioned a full valuation as at 31 March 2016 for its surplus assets and investment properties, as well as for one new build property. This resulted in a total upwards revaluation of £3.1 million. Surplus assets have shown an upwards revaluation of 122%, which reflects the new basis of valuation ('highest and best use'). Investment properties have, in total, shown a downwards revaluation of 3.6%. These have always been valued at fair value, and therefore the implementation of IFRS 13 has had a smaller effect on their valuation. The Council also commissioned its external valuer to carry out a review of material movements in valuation on other general fund properties over the course of the year. Whilst the valuer identified a number of properties where the valuation was likely to have increased by more than £50,000, management, in discussion with the valuer, concluded that any such movements are unlikely to be material in the context of the Statement of Accounts.



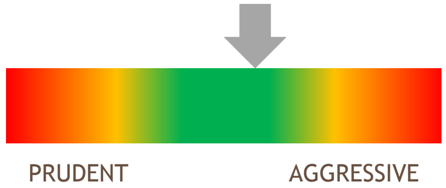
KEY AUDIT AND ACCOUNTING MATTERS
Continued

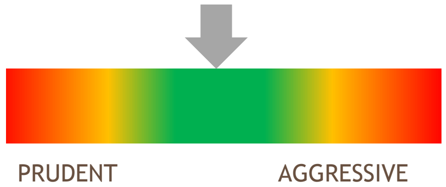
ESTIMATES	AUDIT FINDINGS AND CONCLUSIONS
PENSION LIABILITY ASSUMPTIONS The pension liability comprises the Council's share of the market value of assets held in the East Sussex Pension Fund and the estimated future liability to pay pensions. An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation. Management has agreed the assumptions made by the actuary to support the estimate and these are disclosed in the financial statements. We have reviewed the reasonableness of the assumptions applied by comparing these to the expected ranges provided by an independent consulting actuary report.	As at 31 March 2016 net pension liabilities disclosed in the Balance Sheet decreased by £8.6 million compared to the balance at 31 March 2015. It should be noted that these retirement benefits (liabilities) will not actually be payable until employees retire but because the Council has a commitment to make the payments (for those benefits) there is a requirement to disclose the information in the accounts at the time employees earn their future entitlement. The last formal valuation of the Fund was carried out as at 31 March 2013. In order to assess the value of the Council's liabilities as at 31 March 2016 the actuary has rolled forward the value of the liabilities calculated at the latest formal valuation, allowing for up to date financial assumptions. The key changes to the financial assumptions relate to: • a reduction in the pension increase rate from 2.4% to 2.2% • a reduction in the salary increase rate from 4.3% to 4.2% • an increase in the discount rate from 3.2% to 3.5% (to place a current value on the future liabilities through the use of a market yield of corporate bonds). These changes have resulted in a significant decrease in the present value of the scheme liabilities at 31 March 2016. We have compared the assumptions used by the actuary to calculate the present value of future pension liabilities with the expected ranges provided by the independent consulting actuary. We are satisfied that the assumptions used are not unreasonable or outside of the expected ranges.



KEY AUDIT AND ACCOUNTING MATTERS
Continued

ESTIMATES	AUDIT FINDINGS AND CONCLUSIONS
ALLOWANCE FOR NON-COLLECTION OF RECEIVABLES The Council's largest allowances for impairment of receivables relate to housing benefit overpayments and housing rent arrears. The Council estimates its impairment allowances for housing benefit overpayments by applying a percentage impairment rate between 10% and 70% to each individual debtor based upon their age. For housing rent arrears, the Council also uses a range of impairment rates (from 10% to 95%), depending upon the size of the debt and status of the debtor.	**Housing benefit overpayments** The impairment allowance at 31 March 2016 is £681,000, an increase of £278,000 from the prior year, against an overpayments balance of £2.0 million. We are satisfied that the impairment allowance is based on the age of the debts and that the underlying assumptions are reasonable, although we found an error in the calculation resulting in an understatement of the allowance by £74,000. This has been reported as an unadjusted difference in Appendix II in respect of this estimate. **Housing rent arrears** The impairment allowance at 31 March 2016 is £494,000, an increase of £165,000 from the prior year, against an arrears balance of £662,000. We are satisfied that the impairment allowance is based on the size of the debt and the nature of the debtor and that the underlying assumptions are reasonable.





KEY AUDIT AND ACCOUNTING MATTERS

Continued

FINANCIAL STATEMENT DISCLOSURES

Our views on the sufficiency and content of your financial statements' disclosures are set out below:

DISCLOSURE AREA	AUDIT FINDINGS AND CONCLUSIONS
ACCOUNTING POLICIES	We have reviewed the draft accounting policies note, and found it to be generally compliant with Code requirements. We have identified the following minor areas for improvement which we have shared with management: • The policies on intangible assets and inventories could be removed on materiality grounds • The policy on leases could be significantly reduced to cover only the elements which are material (i.e. the Council as a lessor of operating leases). These have not been amended in the final Statement of Accounts. In addition, a small number of other minor errors were identified by the audit, which have been amended in the final Statement of Accounts.
IMMATERIAL DISCLOSURES	This year, the Council has removed a number of immaterial notes from the Statement of Accounts. We support this decision, as it improves the readability and understandability of the Statement of Accounts.
EVENTS AFTER THE BALANCE SHEET DATE	The draft Statement of Accounts did not include disclosure of any material events after the balance sheet date. It is likely that the result of the EU Referendum on 23 June 2016 may have a material impact on the value of the Council's pension liability in the future, and we therefore requested that disclosure of this fact is made. We also requested disclosure concerning the conversion of the Council's LOBO loan to a fixed rate loan after year-end. These disclosures haven been included in this note in the final Statement of Accounts.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

DISCLOSURE AREA	AUDIT FINDINGS AND CONCLUSIONS
OTHER DISCLOSURE ISSUES	Our review of the draft Statement of Accounts identified the following minor disclosure issues, which have been communicated to management and corrected in the final Statement of Accounts: • The note on assumptions made about the future and other major sources of estimation uncertainty did not include the impact on estimation in respect of PPE valuations, which is a greater source of uncertainty • The draft grant income note omitted a grant of £107,000 (the Property Searches New Burdens grant), which meant that the note did not cast correctly, although the correct total income was recognised in the CIES • The PPE note needs to include an analysis of assets by ownership (i.e. owned or leased) • Within the financial instruments note, certain financial instruments were incorrectly classified as ‘carried at contract amounts’ which is not a valid financial instrument category – these have been re-categorised to loans and receivables, or financial liabilities held at amortised cost • The short-term element of finance lease liabilities of £108,000 was incorrectly included within the long-term liabilities line in the financial instruments note • The disclosure of aged operational debtors in the financial instruments note was based on total debt rather than amounts past due date but not impaired • There are a number of inconsistencies between the amounts reported for resource allocation decisions note and other parts of the Statement of Accounts • A number of other minor errors and inconsistencies. We also noted that HRA assets under construction to the value of £462,000 was omitted from note on the value of HRA non-current assets. This was not amended in the final Statement of Accounts.

KEY AUDIT AND ACCOUNTING MATTERS

Continued

OTHER MATTERS

We are required to communicate certain other matters to you. We deal with these below, either directly or by reference to other communications.

	MATTER	COMMENT
1	Our responsibility for forming and expressing an opinion on the financial statements	See our audit planning report to you dated 24 February 2016.
2	An overview of the planned scope and timing of the audit	See our audit planning report to you dated 24 February 2016.
3	Significant difficulties encountered during the audit	We have no matters to report.
4	Significant matters arising from the audit that were discussed with management or were the subject of correspondence with them, and any other matters arising from the audit that in our judgment are significant to the oversight of the financial reporting process	We have no matters to report.
5	Written representations which we seek	These are reproduced at Appendix VII.
6	Any fraud or suspected fraud issues	See our planning report to you dated 24 February 2016 and additional matters included within this report.
7	Any suspected non-compliance with laws or regulations	We have no matters to report.
8	Uncorrected misstatements, including those relating to disclosure	A schedule of uncorrected misstatements is included at Appendix II.
9	Significant matters in connection with related parties	All relevant matters have been included within this report.

OUTSTANDING MATTERS

We have completed our audit work in respect of the financial statements for the year ended 31 March 2016, and propose issuing an unqualified opinion on the financial statements.

There are no matters outstanding at the date of this report.

OTHER REPORTING MATTERS

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

	MATTER	COMMENT
1	The draft financial statements, within the Statement of Accounts, was prepared and provided to us for audit on 30 June 2016, in accordance with the agreed audit timetable. 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.	We have no matters to report.
2	We are required to review the draft Annual Governance Statement and be satisfied that it meets the disclosure requirements in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007. We are also required to be satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council's review of effectiveness and our knowledge of the Council.	We have reviewed the draft Annual Governance Statement, and we are satisfied that it broadly meets the relevant disclosure requirements, and that it is not materially misleading or inconsistent with other information of which we are aware from our audit and our knowledge of the Council. However, we have identified the following areas where we feel there is some scope for improvement: • The 'Review of effectiveness' section is quite lengthy, and contains a mixture of activities which provide evidence of the effectiveness of the system of internal controls, but also information about the governance framework itself and other decisions which have been taken. We recommend that management consider whether to focus this section more on the annual review of effectiveness process, and perhaps to move some of the other information to other parts of the Annual Governance Statement. • Since the draft Statement was produced in June 2016, there are several areas which are drafted in the future tense about activities to take place between July and September 2016. The Statement will need to be redrafted in places to reflect the fact that the Statement of Accounts will be issued in September 2016, and this will need to include a consideration of whether the outcome of any of these activities raises any additional governance issues which need to be reported. In particular, the Council may wish to consider the outcomes of our use of resources work on the New Homes Project, and whether this provides evidence of weaknesses in the system of internal controls which should be disclosed. Some of these issues have been addressed in the final Annual Governance Statement.

OTHER REPORTING MATTERS
Continued

	MATTER	COMMENT
3	We are required to read all the financial and non-financial information in the Narrative Report to the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.	For 2015/16, all local authorities are required to include a Narrative Report within their Statement of Accounts for the first time. This replaces the old Explanatory Foreword, but will also include additional information not previously disclosed. The Narrative Report is required to be fair, balanced and understandable. We have reviewed the Council's draft Narrative Report in the context of our understanding of the Council, our knowledge acquired in the course of performing the audit, and also CIPFA guidance on the recommended content of a Narrative Report as published within the 2015/16 Code update. We are satisfied that, overall, the Narrative Report is fair, balanced and understandable. We note that the Report is comprehensive, covering most of the areas recommended by CIPFA in a significant degree of detail, and we consider that the Council has got the balance right between financial and non-financial information. There are, however, a small number of areas within the CIPFA guidance which are not covered in the draft Narrative Report, and we recommended that management considers including these going forward. These are as follows: • A note explaining the significance of the pension liability disclosed • Details concerning interest payable and other operating costs • Reference to cash flows during the year and factors which may affect future cash flows • Comparative figures in respect of non-financial KPIs (although we note that some commentary has been included against some KPIs to indicate general direction of travel). Within the financial performance section, there are a number of figures which do not agree directly to the Statement of Accounts, as they are prepared on a different basis. Further explanation has been provided in the final Narrative Report to explain some of these inconsistencies, where necessary. Finally, we identified a small number of rounding inconsistencies and other minor presentational errors which management has corrected within the final Statement of Accounts.

CONTROL ENVIRONMENT
Significant and other deficiencies

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to you.

As the purpose of the audit is for us to express an opinion on the Council's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal controls.

SIGNIFICANT DEFICIENCIES

We did not identify any significant deficiencies in internal control.

OTHER DEFICIENCIES AND OBSERVATIONS

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE
RELATED PARTY TRANSACTIONS	Signed declarations were not received from three members in year end declaration process lead by the finance team for 2015/16.	This increases the risk that conflicts of interest may not be declared and related party transactions may remain unidentified and undisclosed.	We recommend that the Audit and Standards Committee puts procedures in place to monitor compliance with the annual declaration process, and to take further action in the case of individual members where necessary.	Agreed- will strengthen procedures for 2016/17 accounts, potentially to include briefing note to Councillors from Chair of Audit Committee

CONTROL ENVIRONMENT
Significant and other deficiencies continued

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE
COUNCIL TAX DISCOUNT DOCUMENTATION	We tested a sample of 16 Council tax accounts where a single person discount had been applied, and found that in two cases, no documentary evidence could be produced to support the discount. In both cases, the Council has informed us that discount was first applied in 1993, and the evidence is no longer available.	The lack of documentary evidence makes it impossible for us or the Council to be assured conclusively that the discounts are appropriate and valid.	Whilst it may be problematic to retrieve or replace documents or evidence already lost or discarded, management should ensure going forward that the Council's retention policy requires that evidence not be disposed of whilst discounts remain live.	All single person discounts are subject to an independent, risk-based review exercise every two years. The discount is withdrawn in respect of cases which are found to be invalid. Where cases are found to be valid, details of the review are not recorded on the customer file, but are retained centrally.
ADMINISTRATOR ACCESS TO SYSTEMS	For a number of the Council's key IT systems, including Agresso, Trent, Saffron, Academy and Icon, there are one or more functional users and/or generic accounts which have system administrator access, allowing them to set up, modify and delete other user accounts.	It is generally considered best practice to prevent functional users from also having system administrator access (e.g. for members of the finance team not to have administrator access to the finance system). This is because it poses a potential segregation of duties threat. The same is true for generic accounts, where it can be difficult to ascertain which particular individual may have carried out an action using a shared account.	We recommend that management carries out a review of system administrator rights on each of its key systems to ensure that these are appropriate to the Council's need. We recognise the need to balance potential risks against practical considerations, particularly within some of the smaller teams where the opportunities for further segregation of duties may be limited. We would welcome further discussions with management on this issue.	Agreed – systems admin rights will be reviewed. Key systems will be replaced or redesigned as part of the Joint Transformation Programme and BDO's advice on systems admin best practice will be beneficial.

CONTROL ENVIRONMENT

Significant and other deficiencies continued

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE
ICON PASSWORD CONTROLS	We note that, whilst the Icon system requires users to change their password every 60 days, no password history is maintained. This means that it is possible for users to reuse the same password multiple times.	The lack of password history within the Icon system serves to weaken the password controls in place, thus increasing the risk of unauthorised access to the system.	We understand that management is currently considering upgrading the Icon system, and we recommend as part of this process that password controls are strengthened.	Agreed – upgrading the Icon system is a priority, and password controls will be strengthened as part of the implementation process.

WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

MATTER	COMMENT
Auditors are required to review Whole of Government Accounts (WGA) information prepared by component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure. The Council falls below the threshold for review and there is no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure.	We will submit the relevant section of the assurance statement to the National Audit Office (NAO) upon completion of the audit.

USE OF RESOURCES

Key informed decisions, deployed resources and sustainable outcomes

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money). This is based on the following reporting criterion:

- In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

There are three sub criteria that we consider as part of our overall risk assessment:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties.

We reported our risk assessment, which included use of resources significant risks, in the 2015/16 planning report issued on 24 February 2016. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the draft financial statements, and we have not included any additional significant risks.

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
SUSTAINABLE FINANCES: **2015/16 performance**	The Council's Medium Term Financial Strategy (MTFS) was updated in February 2016 and this indicated that the Council is required to make an average level of savings of £705,000 per annum from over the four years. The Council has identified savings which exceed this target by £365,000, although delivery is likely to be challenging and will require further difficult decisions around service provision and alternative delivery models. As a starting point for assessing the Council's financial sustainability, we have considered the Council's budget setting and budget monitoring arrangements, and the effectiveness of those arrangements by assessing financial performance to date and monitoring the delivery of budgeted savings in 2015/16. **General Fund** The Council had budgeted to spend £11.298 million on General Fund services in in 2015/16, with a savings target of £561,000 and a £398,000 use of uncommitted reserves. The actual cost of services (before technical accounting adjustments) in 2015/16 was £10.740 million, an underspend of £558,000. This was partly due to a £169,000 net reduction in salary costs through managing vacancies and as a result of the restructuring programme, and reduced service expenditure in support for business of £370,000.	We are satisfied that the Council has adequate arrangements in place for budget setting and budget monitoring. The Council has a track record of delivering underspends in the General Fund and taking action to minimise the impact of overspends.

USE OF RESOURCES
Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
SUSTAINABLE FINANCES: **2015/16 performance** **(Continued)**	This meant that the Council was able to increase its general fund balance by £514,000, to £2.066 million at 31 March 2016. The closing general fund balance remains above the minimum level of £1 million recommended by the Director of Corporate Services. It also increased its earmarked general fund reserves from £10.343 million to £10.719 million at 31 March 2016. The Council achieved £570,000 against its planned £561,000 savings target in 2015/16, which was largely due to the second phase of its organisational development plans and vacancy savings.	The general fund balance and earmarked reserves act as a potential buffer against future risks.
	Housing Revenue Accounts (HRA) A surplus of £88,000 was achieved on the HRA in 2015/16, compared with an original budgeted deficit of £491,000. This was largely due to the Council deferring its project to carry out a property condition survey and updating the 30 year Housing Business Plan into 2016/17. Total HRA reserves (HRA balance and major repairs reserve) totalled £4.883 million at 31 March 2016, an increase of £1.133 million from the prior year.	There are reasonable levels of HRA reserves to support the sustainability of the 30 year HRA Business Plan. The Business Plan is being updated to take account of the substantial reform to the HRA brought about by the Housing and Planning Act 2016.
	Collection Fund The council tax balance in the Collection Fund was in surplus at 31 March 2016 by £1.529 million, of which the Council's share was £242,000. This reflects growth in the tax base, changes in entitlements to discounts and lower than projected council tax reduction scheme awards. The Council reported a collection rate of 98.3% for the year, which is in line with the prior year. The Council collected around £24.3 million of non domestic rates during the year and is entitled to retain 40% of this, after deducting the increase in the provision for non domestic rate appeals. From this, the Council was required to pay £7.8 million in tariff and levy payments to the Government. The Council reported a collection rate of 98.3% for the year, which is down compared to 98.9% in the prior year. The overall non domestic rates balance on the Collection Fund at 31 March 2016 is in deficit by £2.010 million, of which the Council's share was £804,000. The Council has reported that this is largely the result of increased entitlement to small business rate relief and appeals against business rate valuations.	The overall Collection Fund is in deficit by £481,000 at 31 March 2016, due to a provision for non-domestic rate appeals. We are satisfied that the Collection Fund is being adequately monitored and managed.

USE OF RESOURCES
Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
SUSTAINABLE FINANCES: Transformation project	The Council is currently in the process of undergoing a major Joint Transformation Programme (JTP) with Eastbourne Borough Council to provide more flexible, customer focused and cost effective services, both in the provision of frontline services and the organisation of back office functions. At Lewes, this programme builds on the intent of, and work already started on, its previous 'New Services Delivery Model'. We reviewed the arrangements in place for the Council to make informed decision making in relation to its transformation programme. In particular, we considered how the Council understands and uses reliable financial information to make decisions and how it supports the delivery of strategic priorities, as well as reviewing the governance structures and processes in making decisions. We also reviewed the business case, including sensitivity analysis of future outcomes, for the Council's transformation programme. In September 2015 Cabinet approved a strategy for the JTP, which took account of the findings from a major shared services review commissioned from Improvement and Efficiency Social Enterprise (iESE). A joint team of officers across the two councils worked with Ignite Consulting Limited to develop the detailed business case. Activity mapping and analysis was used to inform the savings estimates. The work on the business case was monitored and steered by the Joint Transformation Programme Board, which consists of the leaders, deputy leaders and leaders of the main opposition parties of both councils. The detailed business plan was approved by Cabinet in May 2016.	Effective governance arrangements have been established to oversee delivery of the project. Risks associated with the project regarding the potential for ineffective change management processes, governance arrangements and engagement and consultation procedures, as well as the risk of the transformation not delivering the financial savings in the timescales required by the MTFS, are being appropriately managed.

USE OF RESOURCES
Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
SUSTAINABLE FINANCES: **MTFS assumptions**	Our planning identified a risk that the MTFS does not adequately take account of the investment costs and savings associated with its transformation project. We reviewed the reasonableness of the assumptions in the MTFS, including the level of Government grant reductions expected, cost pressures, and investment and savings associated with the transformation programme. The MTFS covers the period 2016/17 to 2019/20 and contains assumptions about the future funding of the Council, national and local economic factors, the level of pay and non-pay inflation and a range of savings targets. Over the medium term, the Council expects the net budget requirement to reduce from £13.1 million to £11.1 million and that by 2018/19 its revenue support grant (which amounts to £1.7 million in 2015/16) will cease. The Council plans to balance its finances over the medium term by delivering savings of £2.821m, which will sit alongside projected growth in income from council tax. Savings schemes totalling £3.186 million have been identified. The Council's share of planned savings from the JTP are £400,000 per annum, which is in line with the JTP business case approved by Cabinet. The business case projects total savings of £2.8 million, with an equivalent reduction of 79 full time equivalent posts across both councils. The Council will achieve a higher proportion of the programme benefits because Eastbourne Borough Council has already delivered significant savings through its Future Model programme and the JTP inherits the savings target from Lewes District Council's cancelled New Service Delivery Model programme. Total combined investment required specifically to deliver the JTP is £5.6 million, of which the Council's share is approximately £3.2 million. These costs will be met from the Council's strategic change earmarked reserve, which stood at £3.657 million at 31 March 2016.	The Council understands the risks involved across its financial planning assumptions and that these will continue to require careful management. We are satisfied that the MTFS reflects known savings and cost pressures and that the key underlying assumptions regarding reductions in central government funding and income from taxation are not unreasonable. The projected savings and investment from the JTP have been adequately considered and factored into planning assumptions.

USE OF RESOURCES
Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
NEW HOMES PROJECT	In July 2015 the Council signed a Conditional Sale Agreement and Profit Share and Project Management Agreement with a private sector consortium, in respect of a project to raise funds to build a number of new Council homes across the district, and to bring regenerative benefits to a number of sites. This was meant to have been a significant project involving the sale of a number of the Council's surplus land assets, and substantial investment from both the Council and the consortium. In February 2016 a decision was taken by Cabinet to terminate this agreement as a result of the non-satisfaction of title and ground conditions in respect of key sites within the project. Given the scale of the project, we identified a risk to our use of resources opinion if due process was not followed by the Council in entering into the contract and terminating the contract. We have therefore reviewed the governance and decision making processes followed by the Council in entering into the Conditional Sale Agreement, and subsequently terminating the agreement. The aim was to determine whether the Council's own internal processes were followed and whether these were sufficient to ensure that appropriately informed decisions were made. This involved a review of relevant documents and Cabinet minutes, and discussions with management.	Overall the Council followed its own internal processes in making decisions about this project, and legal advice was sought on key decisions made. However, we have identified scope for improvement in arrangements underpinning the project and have agreed an action plan with officers for lessons learnt from this project to be applied to future projects of this size and nature. Recommendations have been raised in Appendix III in respect of : • Earlier disclosure of potential development sites • Public consultation in preliminary stages • Updating the Property Strategy and Asset Management Plan • More structured approach to carrying out due diligence checks. The actions relate largely to good practice that could be implemented rather than significant weaknesses in processes.

USE OF RESOURCES
Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
VALUE FOR MONEY PROFILE TOOL	The Audit Commission, and now Public Sector Audit Appointments Ltd, provides auditors with a VfM Profile Tool of comparative financial data for all local authorities. This is available at www.vfm.psaa.co.uk. We have reviewed the reports available with data populated in July 2016, which includes mainly 2014/15 outturn costs, comparing the Council with all other district councils. The report highlights that the Council's overall net spend per head in 2014/15 was in the highest 10% and planned net spend per head for 2015/16 was in the highest 20%. As a result, reserves as a percentage of net current expenditure are relatively low. This is partly due to the following outliers, using 2014/15 data: • Income from sales, fees & charges as percentage of total spend is in the lowest 20% • The average weekly cost of maintenance per dwelling is in the highest 5%. On the positive side, spend on management and support (back office) services as a proportion of total service spend is in the lowest third. Other key outliers based on 2014/15 data include: • The percentage of household waste sent for reuse, recycling, and composting is in the worst 5% • Spend on council tax benefits and housing benefits administration per head is in the highest 25%.	The reasons for the relatively high net spend in the Council are understood by management and plans are in place to address areas for improvement. The aim of the transformation programme with Eastbourne Borough Council is to drive efficiencies and reduce the Council's overall cost base. The Council continues to be below average for income collected from fees and charges. This is due to limited discretionary areas for charging fees and reflects the Council's decision regarding the running of the leisure centres by a separate Trust. Management is aware of the relatively high cost per dwelling in the Council and is reviewing its direct service organisation (DSO) for housing repairs. The Council has recently been working with a secondee from Eastbourne Homes Limited (an organisation that manages Eastbourne Borough Council's housing stock) to rationalise housing repair procurement. A report on housing repairs and maintenance is due to be presented to Cabinet in November 2016, with recommendations for increasing efficiencies. Management is also aware that there is significant scope for improvement in its waste collection and recycling service. In 2015/16 a number of initiatives got underway to improve the service, which had some success in increasing garden waste collections. A project manager was appointed to carry out a review of the service and draw up detailed proposals for the future development of the service, including plans to build a new waste collection/recycling facility in Newhaven. The results of the service review were considered by the Scrutiny Committee in July 2016 and will be considered by Cabinet in September 2016. The Council continues to be above average for spend on council tax and housing benefits administration, although grant subsidy covers this expenditure. Management expects this to improve under the joint transformation programme.

APPENDICES

APPENDIX I: DEFINITIONS

TERM	MEANING
The Council	Lewes District Council
'Those charged with governance'	The persons with responsibility for overseeing the strategic direction of the Council and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance for the Council are the members of the Audit and Standards Committee.
Management	The persons responsible for achieving the objectives of the Council and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for: • The financial statements (including designing, implementing, and maintaining effective internal control over financial reporting) • Putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources and to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of them.
ISAs (UK & Ireland)	International Standards on Auditing (UK & Ireland)
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards as adopted by the European Union
Materiality	The size or nature of a misstatement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable user of the financial statements would have been changed or influenced as a result of the misstatement.
The 'Code'	Code of Practice on Local Authority Accounting in the United Kingdom issued by CIPFA / LASAAC (Chartered Institute of Public Finance and Accountancy / Local Authority Scotland Accounts Advisory Committee)
SeRCOP	Service Reporting Code of Practice for Local Authorities issued by CIPFA / LASAAC
SOLACE	Society of Local Authority Chief Executives
CIES	Comprehensive Income and Expenditure Statement

APPENDIX II: AUDIT DIFFERENCES

AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Audit and Standards Committee is required to consider. This includes: audit differences that have been corrected by management; and those that remain uncorrected along with the effect that they have individually, or in aggregate, on the opinion in the auditor's report.

CORRECTED AUDIT DIFFERENCES

There were no differences that have been corrected in the revised draft financial statements that affect the reported surplus for the year. However, a number of amendments to classifications and disclosures have been made, as detailed in the 'Key Audit and Accounting Matters' section of this report.

UNADJUSTED AUDIT DIFFERENCES

There are two unadjusted audit differences identified by our audit work this year which would increase the draft surplus on the provision of services in the CIES by £56,000 to £19.333 million (from £19.277 million) if adjusted.

Management has stated that it considers these misstatements to be immaterial in the context of the financial statements taken as a whole.

		INCOME AND EXPENDITURE		BALANCE SHEET	
	£'000	DR £'000	CR £'000	DR £'000	CR £'000
Surplus on the provision of services	**(19.277)**				
Dr Revaluation reserve				130	
Cr Expenditure			(130)		
Incorrect posting of revaluation reserve movements (factual misstatement)	(130)				
This would not impact on the general fund balance as the charge would be reversed to the Capital Adjustment Account through the Movement in Reserves Statement					
Dr Expenditure – other housing services (housing benefits)		74			
Cr Debtors	74				(74)
Understatement of impairment allowance on housing benefit overpayments (estimation misstatement)					
TOTAL UNADJUSTED AUDIT DIFFERENCES	**(56)**	**74**	**(130)**	**130**	**(74)**
Surplus on the provision of services if adjustments accounted for	**(19.333)**				

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

AREA	CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
FINANCIAL STATEMENTS					
ACCOUNTING POLICIES DISCLOSURES	There are a small number of sections within the accounting policies disclosures which could be removed or reduced on the grounds of materiality.	We recommend that management reviews its accounting policies note going forward to ensure that immaterial or irrelevant information is removed, in order to improve the readability and understandability of the Statement of Accounts.	Agreed	Head of Finance	June 2017 (2016/17 Draft Accounts)
NARRATIVE REPORT	We identified a small number of areas which CIPFA guidance recommends should be included in the Narrative Report, but which are absent from the Council's draft Narrative Report. Further detail is set out on page 21 of this report.	We recommend that management considers whether to include these areas within the Narrative Report in future years.	Agreed	Head of Finance	June 2017 (2016/17 Draft Accounts)

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN
Continued

AREA	CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
CONTROL ENVIRONMENT					
RELATED PARTY TRANSACTIONS	Signed declarations were not received from three members in the year end declaration process lead by the finance team for 2015/16. This increases the risk of undeclared conflicts of interest and undisclosed related party transactions.	We recommend that the Audit and Standards Committee puts procedures in place to monitor compliance with the annual declaration process, and to take further action in the case of individual members where necessary.	Agreed- will strengthen procedures for 2016/17 accounts, potentially to include briefing note to Councillors from Chair of Audit Committee	Head of Finance	31 March 2017
ADMINISTRATOR ACCESS TO SYSTEMS	For a number of the Council's key IT systems, including Agresso, Trent, Saffron, Academy and Icon, there are one or more functional users and/or generic accounts which have system administrator access, allowing them to set up, modify and delete other user accounts.	We recommend that management carries out a review of system administrator rights on each of the Council's key systems to ensure that these are appropriate to the Council's need. We recognise the need to balance potential risks against practical considerations, particularly within some of the smaller teams where the opportunities for further segregation of duties may be limited. We would welcome further discussions with management on this issue.	Agreed – systems admin rights will be reviewed. Key systems will be replaced or redesigned as part of the Joint Transformation Programme and BDO's advice on systems admin best practice will be beneficial.	Head of Finance Head of Customer Services Head of IT	31 March 2017, dependent on JTP programme timetable

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN
Continued

AREA	CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
ICON PASSWORD CONTROLS	We note that, whilst the Icon system requires users to change their password every 60 days, no password history is maintained. This means that it is possible for users to reuse the same password multiple times.	We understand that management is currently considering upgrading the Icon system, and we recommend as part of this process that password controls are strengthened.	Agreed – upgrading the Icon system is a priority, and password controls will be strengthened as part of the implementation process.	Head of Finance	31 March 2017
COUNCIL TAX DISCOUNT DOCUMENTATION	We tested a sample of 16 Council tax accounts where a single person discount had been applied, and found that in two cases no documentary evidence could be produced to support the discount. In both cases, the Council has informed us that discount was first applied in 1993, and the evidence is no longer available.	Whilst it may be problematic to retrieve or replace documents or evidence already lost or discarded, management should ensure going forward that the Council's retention policy requires that evidence not be disposed of whilst discounts remain live.	All single person discounts are subject to an independent, risk-based review exercise every two years. The discount is withdrawn in respect of cases which are found to be invalid. Where cases are found to be valid, details of the review are not recorded on the customer file, but are retained centrally.	No action	No action

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN
Continued

AREA	CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
GOVERNANCE REPORTING					
ANNUAL GOVERNANCE STATEMENT	From our review of the draft Annual Governance Statement, we found that the 'Review of effectiveness' section is quite lengthy, and contains a mixture of activities which provide evidence of the effectiveness of the system of internal controls, and information about the governance framework itself and other decisions which have been taken.	We would recommend that management focus this section more on the annual review of effectiveness process, and perhaps move some of the other information to other parts of the Annual Governance Statement.	Agreed – management will review the AGS to take account of these comments and restructure as appropriate.	Head of Audit, Fraud and Procurement	March 2017

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN
Continued

AREA	CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
USE OF RESOURCES					
NEW HOMES PROJECT - DISCLOSURE OF DEVELOPMENT SITES	An exempt list of potential development sites was presented to Cabinet in May 2012 and all District Councillors who held office at the time received a copy of the Cabinet report and the exempt list. The list was kept exempt as it contained commercially sensitive information and listed all potential, rather than proposed, development sites. Once a preferred bidder was selected and negotiations begun, the Council was also required to keep the details of the negotiation confidential. The site list was therefore only made available to the public after the contract was awarded, in May 2015. The Council's approach was set out in the May 2012 Cabinet report as it stated that all affected parties would be informed about the Council's plans once the detail of the promotion agreement was agreed and the list of sites agreed as part of the contract. However, given the significant public interest in this project and in the interests of transparency, we believe that management should have considered ways of making the list of potential development sites publically available before contact negotiations began. Non-disclosure of the site list for three years is likely to raise public concern.	Each significant project should have a detailed public engagement plan, specific to the project, setting out the nature and timing of information to be released into the public domain. This should be approved by Cabinet at the outset.	Agreed. The Head of Business Strategy and Performance will update the Council's project management guidance, to take into account the changes required to the treatment of significant projects, and ensure that senior officers and Cabinet councillors are made aware of them. Training on the Council's revised project methodology to be provided to all Heads of Service and Corporate Management Team.	Head of Business Strategy and Performance	By end of October 2016 By end of January 2017

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN
Continued

AREA	CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
NEW HOMES PROJECT - PUBLIC CONSULTATION	No public consultation on the site list was carried out before the contract was awarded, and only shortly before the contract was signed on 30 July 2015. We are informed that the aim of the consultation events was to discuss proposals and answer questions about how the development would proceed, and gain information about any potential limitations, rather than what was included in the site list. Whilst earlier consultation was not required by the Council's policies, it would have been good practice for the Council to have carried out preliminary targeted consultation before entering into the procurement stage. The absence of public consultation in the early stages of a project limits the public's ability to provide useful input into matters affecting them.	Each significant project should have a detailed public engagement plan, setting out the purpose and timing of public consultation events. In developing this plan for each project, management should consider the benefits of carrying out preliminary targeted consultation before entering into the procurement stage.	Agreed. The Head of Business Strategy and Performance will update the Council's project management guidance, to take into account the changes required to the treatment of significant projects, and ensure that senior officers and Cabinet councillors are made aware of them. Training on the Council's revised project methodology to be provided to all Heads of Service and Corporate Management Team.	Head of Business Strategy and Performance	By end of October 2016 By end of January 2017

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN
Continued

AREA	CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
NEW HOMES PROJECT - PROPERTY STRATEGY AND ASSET MANAGEMENT PLAN	Cabinet approved a Property Strategy in May 2012, which recognised that the environment in which the Council was operating had changed significantly over the preceding two years, which resulted in the need to refresh the Council's approach to the utilisation of its assets. The report stated that it superseded any previous capital and property strategies. It did not specifically mention superseding the Council's 2009 Asset Management Plan. We understand that a new Asset Management Plan is being developed as one of the work streams from the 2012 Property Strategy. The 2012 Property Strategy requires a series of interviews with key stakeholder across the Council to collate information. Officers have stated that this means internal stakeholders. The absence of an up to date asset management plan to underpin the Council's Property Strategy may result in due process not being followed.	The Council should complete the update of its previous Asset Management Plan, to underpin its Property Strategy.	Agreed. The Head of Property and Facilities will update the Council's Asset Management Plan. This will take account of the requirements of the Council's Property Strategy.	Head of Property and Facilities	By end of December 2016
		The Property Strategy should be updated to remove any references to out of date policies and to more clearly indicate what is meant by stakeholders.	Agreed. The Head of Property and Facilities will update the Council's Property Strategy to reflect current policies and clearly specify the meaning of stakeholders.	Head of Property and Facilities	By end of December 2016

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

Continued

AREA	CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
NEW HOMES PROJECT - FEASIBILITY CHECKS	The Council entered into a Conditional Sale Agreement and Profit Share and Project Management Agreement for the new homes project, which required that detailed due diligence checks were carried out by all the partners within a 5 month period following signing of the agreements. In February 2016 Cabinet approved a decision to serve notice on the other partners to terminate the contractual agreements because of the non-satisfaction of the title and ground conditions on key sites, which became apparent during the course of due diligence. The Council incurred preliminary costs in the region of £0.6 million associated with the development of sites included within this project. This included initial design fees, ground surveys, transport and environmental studies and public consultation. The contract documents identified two particular sites – the Buckle and Normansel Park Avenue - as being “key” sites within the project because they would yield the highest capital receipts, and it was clear that the project would not remain viable if both of these sites failed the due diligence checks.	The Council’s project methodology should require a more structured approach to due diligence work, so that the most critical issues are identified and covered in order of priority.	Agreed. The Head of Business Strategy and Performance will update the Council’s project management guidance, to take into account the changes required to the treatment of significant projects, and ensure that senior officers and Cabinet councillors are made aware of them. Training on the Council’s revised project methodology to be provided to all Heads of Service and Corporate Management Team.	Head of Business Strategy and Performance	By end of October 2016 By end of January 2017

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN
Continued

AREA	CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
NEW HOMES PROJECT - FEASIBILITY CHECKS (continued)	High level reports on title had been undertaken by the Council on these two sites, and all other project sites, prior to the agreement being signed and the results shared with the other parties. However, detailed investigation of the covenants on the two key sites, including the commissioning of counsel's opinion, was not undertaken until after the Conditional Sale Agreement and Profit Share and Project Management Agreement were concluded. Whilst some of the £0.6 million preliminary expenditure may benefit feasibility studies on future projects of this nature, preliminary costs on this particular project would have been lower if the parties had focused their detailed due diligence checks on these two key sites at an earlier stage. Unnecessary costs may be incurred if due diligence checks are not carried out in order of priority.	As above.	As above.	As above.	As above.

APPENDIX IV: MATERIALITY

MATERIALITY - FINAL AND PLANNING

	FINAL	PLANNING
Materiality	£1,400,000	£1,630,000
Clearly trivial threshold	£28,000	£32,000

Planning materiality of £1.63 million was based on 2% of gross expenditure, using the average outturn for the prior two financial years.

We revised our materiality because final expenditure for 2015/16 was significantly lower than in the previous years due to council dwellings impairment reversals.

APPENDIX V: INDEPENDENCE

INDEPENDENCE - ENGAGEMENT TEAM ROTATION		
SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDED
JANINE COMBRINCK – Engagement lead	3	31 March 2018
JODY ETHERINGTON – Engagement manager	2	31 March 2024

INDEPENDENCE - THREATS TO INDEPENDENCE AND APPROPRIATE SAFEGUARDS

We have provided services other than audit to the Council as set out in Appendix VI.

We have not identified any potential threats to our independence as auditors. We are not aware of any financial, business, employment or personal relationships between the audit team, BDO and the Council.

We confirm that the firm complies with the Financial Reporting Council's Ethical Standards and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement lead and audit staff is not impaired.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

APPENDIX VI: FEES SCHEDULE

	2015/16	2014/15		
	£	£	THREATS TO INDEPENDENCE ARISING	SAFEGUARDS APPLIED AND WHY THEY ARE EFFECTIVE
Code audit fee	50,888[1]	61,890	N/A	N/A
Certification fee (Housing benefits subsidy claim)	14,960	15,598	N/A	N/A
TOTAL AUDIT FEE	65,848	77,488		
Reporting on other government grants:				
Pooling of Housing Capital Receipts return	1,500	1,500	The threat to auditor independence from Audit Related Services is clearly insignificant	No safeguards required
TOTAL ASSURANCE SERVICES	67,348	78,988		

[1] Includes £4,470 in respect of additional work carried out on our review of governance around the New Homes project following concerns raised with us by a local elector, subject to agreement with PSAA Ltd

APPENDIX VII: DRAFT REPRESENTATION LETTER

TO BE TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP
55 Baker Street
London
W1U 7EU

XX September 2016

Dear Sirs

Financial statements of Lewes District Council for the year ended 31 March 2016

We confirm that the following representations given to you in connection with your audit of the Council's financial statements (the 'financial statements') for the year ended 31 March 2016 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Director of Corporate Services has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and Statement of responsibilities of auditors and of audited bodies: local government issued by Public Sector Audit Appointments (PSAA), and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2016 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and for making accurate representations to you.

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and other meetings have been made available to you.

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with the Code and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving members, management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

We have disclosed to you all allegations of fraud or suspected fraud affecting the financial statements that have been communicated by members, employees, former employees, analysts, regulators or any other party.

APPENDIX VII: DRAFT REPRESENTATION LETTER

Continued

We attach a schedule showing accounting adjustments that you have proposed, which we acknowledge that you request we correct, together with the reasons why we have not recorded these proposed adjustments in the financial statements. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements.

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

We have no plans or intentions that may materially affect the carrying value and where relevant, the fair value measurement, or classification of assets or liabilities reflected in the financial statements.

We confirm that the significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

(a) Pension fund assumptions

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) scheme liabilities, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

Rate of inflation (CPI): 2.2%

Rate of increase in salaries: 4.2%

Rate of increase in pensions: 2.2%

Rate of discounting scheme liabilities: 3.5%

We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

(b) Valuation of housing stock, other land and buildings and investment properties

We are satisfied that the useful economic lives of the housing stock and other land and buildings, and their constituent components, used in the valuation of the housing stock and other land and buildings, and the calculation of the depreciation charge for the year, are reasonable.

We confirm that the valuations applied to council dwellings and other land and buildings revalued in the year, as provided by the valuer and accounted for in the financial statements, are reasonable and consistent with our knowledge of the business and current market prices.

We are satisfied that investment properties have been appropriately valued at fair value, based on highest and best use.

We are satisfied that the carrying value of all property, plant and equipment assets is not materially different from their current values as calculated in accordance with the requirements of the Code.

(c) Allowance for non-collection of receivables

We are satisfied that the impairment allowances for housing benefit overpayments and housing rent arrears are reasonable, based on write-off rates or collection rate data.

We consider that the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

We have disclosed all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed in accordance with the requirements of accounting standards.

We confirm that the above representations are made on the basis of enquiries of members, management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

APPENDIX VII: DRAFT REPRESENTATION LETTER
Continued

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Alan Osborne

Director of Corporate Services

XX September 2016

Cllr Mike Chartier

Chairman

Signed on behalf of the Audit and Standards Committee

XX September 2016

APPENDIX VIII: AUDIT QUALITY

BDO is totally committed to audit quality. It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. BDO welcome feedback from external bodies and is committed to implementing necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US firms), the firm undertake a thorough annual internal Audit Quality Assurance Review, and as a member firm of the BDO International network we are also subject to a quality review visit every three years. We have also implemented additional quality control review processes for all listed and public interest audits.

We seek to make improvements and address weaknesses identified from both external and internal quality reviews. Where issues have been identified an action plan is put in place. These plans may relate to individual assignments, individual offices, or be firm-wide, and in each instance the outcome of these actions is subject to monitoring and have been the subject of our analysis of root causes. The actions may include, but are not necessarily limited to, one or more of the following:

- The implementation, where appropriate, of relevant training for the engagement team where the issue is team specific;
- The revision and production of additional guidance in connection with the firm's audit approach where we identify that an issue is more wide-spread;
- The development and delivery of firm-wide training;
- Amendments and/or enhancements to stream policies and procedures.

FOR MORE INFORMATION:

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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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