# LEWES DISTRICT COUNCIL

## AUDIT COMPLETION REPORT

Audit for the year ended 31 March 2017

13 September 2017

BDO

# CONTENTS

# SUMMARY

| AUDIT SCOPE AND OBJECTIVES | |
|---|---|
| Audit status | We have substantially completed our audit procedures in accordance with the planned scope and our objectives have been achieved, subject to resolution of matters set out on page 5. |
| Audit risks | No additional significant risks were identified during the course of our audit procedures subsequent to our Planning Report to you dated 27 February 2017, however we have increased the risk level for our previously reported risk for pension liability assumptions from a normal risk to a significant risk following a review of the draft financial statements which indicated a significant movement in investment account classification from the prior year. |
| Materiality | Our final materiality is £1.6 million. This has been updated from our Planning Report to reflect current year actual expenditure in the financial statements. |
| Changes to audit approach | There were no significant changes to our planned audit approach nor were any restrictions placed on our audit. |
| **KEY AUDIT AND ACCOUNTING MATTERS** | |
| Material misstatements | Subject to successful resolution of our queries regarding the values of other land and buildings since the last revaluation, our audit identified no material misstatements. |
| Adjusted misstatements | Our audit identified two immaterial adjusted misstatements:<br>• £260,000 in respect of the classification of cash and cash equivalents between those which are in surplus and those in overdraft<br>• £1.478 million to reclassify recovery of housing benefit overpayments within the Director of Service Delivery line in the CIES from negative expenditure to income (and an adjustment of £1.687 million to reclassify the 2015/16 amounts as stated in the audited prior year accounts)<br>These adjustments have no impact on net assets or the surplus on the provision of services.<br>A few other presentational changes have been made to the financial statements as a result of the audit. |
| Unadjusted audit differences | Our audit identified an immaterial unadjusted misstatement in the value of specialised assets based on the depreciated replacement costs method, whereby indexation as advised by the Council's valuer had not been applied since the assets were last revalued as at 1 April 2014. Following further enquiries of the valuer as a result of the audit, management has recognised £1.246 million of revaluation increases to other land and building assets held at depreciated replacement cost, of which £1.219 million to be recognised within revaluation reserve and £27,000 as impairment reversals within net cost of services. This is set out in Appendix I.<br>We have also reported an overstatement of expenditure of £74,000 due to understatement of expenditure in the prior year, which would increase the surplus on provision of services to £7.218 million if adjusted. |

# SUMMARY

| KEY AUDIT AND ACCOUNTING MATTERS | |
|---|---|
| Control environment | Our audit did not identify any significant deficiencies in internal controls. |

| KEY MATTERS FROM OUR AUDIT OF USE OF RESOURCES | |
|---|---|
| Sustainable finances | While there is a recognised funding gap in the Medium Term Financial Strategy (MTFS), we are satisfied that the Council has appropriate arrangements to continue to remain financially sustainable over the period of the MTFS. All of the required savings for 2017/18 have been identified. |
| Informed decision making | The Council has made progress against all the recommendations that we raised in respect of the New Homes project in the prior year, and there is evidence that the learning from this project has been applied to other capital projects. |

| AUDIT OPINION | |
|---|---|
| Financial statements | Subject to the successful resolution of outstanding matters set out on page 5, which are largely procedural, we anticipate issuing an unmodified opinion on the financial statements for the year ended 31 March 2017. |
| Annual Governance Statement | We have no exceptions to report in relation to the consistency of the Annual Governance Statement with the financial statements or our knowledge. |
| Use of resources | We anticipate issuing an unmodified opinion on the use of resources for the year ended 31 March 2017. |

| OTHER MATTERS FOR THE ATTENTION OF THE AUDIT AND STANDARDS COMMITTEE | |
|---|---|
| Whole of Government Accounts (WGA) | The Council is below the audit threshold for a full assurance review of the WGA Data Collection Tool.<br>We will submit the relevant section of the assurance statement to the National Audit Office prior to the statutory deadline. |
| Audit independence | Our observations on our audit independence and objectivity and related matters are set out in Appendix IV. No issues were identified. |
| Audit certificate | We will issue our audit certificate after we have completed our work on the financial statements and use of resources. |

# INTRODUCTION

## PURPOSE AND USE OF THIS REPORT

We present our Audit Completion 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 use of resources. As the purpose of the audit is for us to express an opinion on the financial statements and use of resources, 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.

## 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 welcomes 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 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.

More details can be found in our latest Transparency Report at www.bdo.co.uk.

# OUTSTANDING MATTERS

We have substantially completed our audit work for the year ended 31 March 2017, and anticipate issuing unmodified opinions on the financial statements and use of resources.

The following matters are outstanding at the date of this report. We will update you on their current status at the Audit and Standards Committee meeting at which this report is considered:

1. Clearance of outstanding issues on the audit queries tracker currently with management, including:
   - Completion statements for two property additions
   - Confirmation of potential errors identified within the housing benefits initial 60 cases testing and receipt of the updated workbooks from internal audit
2. Internal quality control review process
3. Subsequent events review
4. Final review and approval of the financial statements
5. Management representation letter, as attached in Appendix VI, to be approved and signed

# KEY AUDIT AND ACCOUNTING MATTERS

## AUDIT RISKS

We assessed the following matters as audit risks as identified in our earlier Planning Report dated 27 February 2017. Below we set out how these risks have been addressed and the outcomes of our procedures.

**Key:** ■ Significant risk ■ Normal risk

| | AUDIT AREA | RISK DESCRIPTION | HOW RISK WAS ADDRESSED BY OUR AUDIT | AUDIT FINDINGS AND CONCLUSION |
|---|---|---|---|---|
| 1 | Management override of controls | The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.<br><br>Under International Standards on Auditing (UK and Ireland) 240, there is a presumed significant risk of management override of the system of internal controls. | We reviewed the appropriateness of journal entries and other adjustments made in the preparation of the financial statements.<br><br>We obtained an understanding of the business rationale for significant transactions that are outside the normal course of business for the Council or that otherwise appear to be unusual, if any.<br><br>We reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represented a risk of material misstatements due to fraud. | Our audit work in relation to journals has not identified any significant issues.<br><br>We have not found any indication of management bias in accounting estimates.<br><br>Our views on significant management estimates are included below.<br><br>No unusual entries or transactions outside of the normal course of business were identified. |

# KEY AUDIT AND ACCOUNTING MATTERS

| | AUDIT AREA | RISK DESCRIPTION | HOW RISK WAS ADDRESSED BY OUR AUDIT | AUDIT FINDINGS AND CONCLUSION |
|---|---|---|---|---|
| 2 | Revenue recognition | Under auditing Standards there is a presumption that income recognition presents a fraud risk. For local authorities, the risks can be identified as affecting the completeness, accuracy and existence of income.<br>We consider there to be a significant risk in relation to the existence and completeness of fees and charges recorded in the Comprehensive Income and Expenditure Statement (CIES). | We tested an increased sample of fees and charges to underlying documentation, to cover the existence and accuracy of transactions throughout the year.<br>We are in the process of testing an increased sample of receipts either side of year end, to confirm that income has been recorded in the correct period and that all income that should have been recorded at year end has been. | No issues have been identified by our testing of revenue from fees and charges throughout the year.<br>We will update the Audit and Standards Committee on the results of our testing of receipts either side of year end, when this work is complete. |

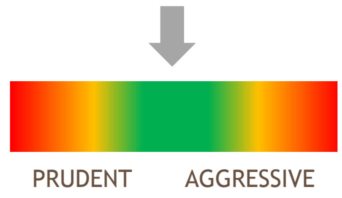
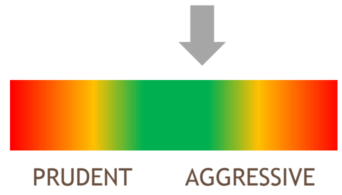
# KEY AUDIT AND ACCOUNTING MATTERS

| | AUDIT AREA | RISK DESCRIPTION | HOW RISK WAS ADDRESSED BY OUR AUDIT | AUDIT FINDINGS AND CONCLUSION |
|---|---|---|---|---|
| 3 | Valuation of non-current assets | Local authorities are required to ensure that the carrying value of non-current assets is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date.<br>The Council appointed an external valuer to carry out a year-end desktop review on certain asset classes.<br>Due to the significant value of the Council's non-current assets, and the high degree of estimation uncertainty, there is a risk over the valuation of non-current assets where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year-end. | 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.<br>We checked that the basis of valuation for assets is appropriate, including whether an instant build modern equivalent asset basis has been used for assets valued at depreciated replacement costs, and that investment properties and surplus assets have been valued based on 'highest and best use.'<br>We reviewed valuation movements against independent data showing indices of price movements for similar classes of assets. We followed up valuation movements that appear unusual against indices, or any assets which may have had material movements since the last valuation. | From our review of the instructions provided to the valuer and assessment of the expertise of the valuer, we are satisfied that we can rely on this work.<br>For the sample of property, plant and equipment (PPE) assets and investment properties reviewed we are satisfied that the basis of the valuation for each asset is appropriate and that the revaluation movements have been correctly accounted for.<br>Our review of the reasonableness of valuation assumptions applied is noted on the following page. |

# KEY AUDIT AND ACCOUNTING MATTERS

**SIGNIFICANT ACCOUNTING ESTIMATES**

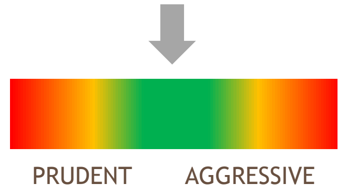
**Land, buildings, dwellings and investment property valuations**

| ESTIMATE | HOW RISK WAS ADDRESSED BY OUR AUDIT | AUDIT CONCLUSION |
| --- | --- | --- |
| Land and buildings are valued by reference to existing use market values<br><br>Dwellings are valued by reference to open market value less a social housing discount<br><br>Investment properties are valued by reference to highest and best use market value<br><br>Some specialist buildings are valued at depreciated replacement cost by reference to building indices | We reviewed the movements in valuations with other relevant market indices to assess the reasonableness of the valuations.<br><br>**Council dwellings**<br><br>The valuer has provided the Council with a valuation as at 31 March 2017, on a beacon basis, resulting in an increase of 2.98% on the vacant possession value and revaluation gains of £14.828 million. This is considered reasonable in comparison to regional trends of property prices in the South East which indicate an increase of 3.8%.<br><br>**Other land and buildings**<br><br>The Council holds £34.121 million of other land and buildings which have not been revalued since 1 April 2014, either in terms of a formal valuation or any indexation applied. The valuer provides the Council with a material movements report each year, which considers whether specific assets have moved by more than £100,000 during the year. It does not, however, consider the cumulative impact of price movements since the last formal valuation or the cumulative impact of all assets.<br><br>For specialised other land and buildings valued on a depreciated cost replacement basis, the movements in BCIS tender price index provided by the valuer were 4%, 10% and 9.5% for 2016/17, 2015/16 and 2014/15 respectively. We have performed a reasonableness review of the value of these assets as at 31 March 2017, using the movements in BCIS tender price indices per market data, and noted that the cumulative impact of not applying indexation since 1 April 2014 is now material. As a result of the audit, management has queried the interim price movements with the valuer and subsequently calculated £1.246 million of indexed revaluation increases to assets held under depreciated replacement cost, £1.116 million of which relates to leisure centres. Management have not adjusted for this and so is recorded as an unadjusted misstatement at Appendix I, of which £1.219 million is a gain to revaluation reserve and £27,000 as impairment reversals. This is based on the disaggregated indexation on the various components, which is considered to be reasonable.<br><br>For other land and buildings valued on an existing use basis, the value of assets not revalued since 1 April 2014 is £20.1 million. This includes land of £15.1 million, the land factor indices have not changed since 2014. The remaining £5 million relates to building components and the movement in Investment Property Databank (IPD) capital values per independent market data indicates a decrease of only 0.1%. The absence of indexation on these assets is therefore considered reasonable. There are two material assets that were valued more recently and we are satisfied that these values are reasonable. | <br><br> |

# KEY AUDIT AND ACCOUNTING MATTERS

## SIGNIFICANT ACCOUNTING ESTIMATES

### Land, buildings, dwellings and investment property valuations (continued)

| ESTIMATE | HOW RISK WAS ADDRESSED BY OUR AUDIT | AUDIT CONCLUSION |
|---|---|---|
| | **Investment properties and surplus assets**<br>All surplus assets were revalued as at 31 March 2017, resulting in a £512,000 gain, which is considered reasonable.<br>All investment properties were revalued as at 31 March 2017 and a fair value gain of £146,000 is recognised in the financial statements, an increase of 1.5%. This compares to the national indices for IPD rental values that increased by 1.83%, which is not materially different from the movements applied. |  |

# KEY AUDIT AND ACCOUNTING MATTERS

| | AUDIT AREA | RISK DESCRIPTION | HOW RISK WAS ADDRESSED BY OUR AUDIT | AUDIT FINDINGS AND CONCLUSION |
|---|---|---|---|---|
| 4 | Pension liability assumptions | The net pension liability comprises the Council's share of the market value of assets held in the East Sussex County Council's Pension Fund and the estimated future liability to pay pensions.<br><br>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.<br><br>There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.<br><br>This has been increased from a normal risk to a significant following a review of the draft financial statements which indicated a significant movement in investment account classification from the prior year. | We agreed the disclosures to the information provided by the pension fund actuary.<br><br>We used the PwC consulting actuary report to review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data and to review of the actuary's methodology.<br><br>We obtained assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.<br><br>We checked whether any significant changes in membership data were communicated to the actuary. | From our review of the pensions note in the draft financial statements and the supporting actuarial report, we noted that there had been a significant movement from investments with quoted prices not in active markets ('level 2' in the fair value hierarchy) to investments with quoted prices in active markets ('level 1' in the fair value hierarchy) compared to the prior year. Further to our enquiries, management queried the classification with East Sussex County Council, the pension fund administrators. Following further investigation, the actuary issued revised reports which reclassified investment funds and unit trust equities and bonds from level 1 to level 2. Management has agreed to amend the financial statements for these revised classifications.<br><br>We did not identify any other issues regarding the accuracy of the disclosures in the financial statements or the accuracy and completeness of data provided by the pension fund to the actuary.<br><br>We have reviewed the letter of comfort from the Head of Accounts and Pensions at East Sussex Pension Fund regarding the transfer of liability to Eastbourne Borough Council (further information on this provided under risk 6 below) and the actuary has referred to the fact that the majority of the Council's staff transferred into Eastbourne Borough Council within their IAS 19 report to management.<br><br>Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations is noted in the following page. |

# KEY AUDIT AND ACCOUNTING MATTERS

## SIGNIFICANT ACCOUNTING ESTIMATES

### Pension liability assumptions

**ESTIMATE**

The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows

**HOW RISK WAS ADDRESSED BY OUR AUDIT**

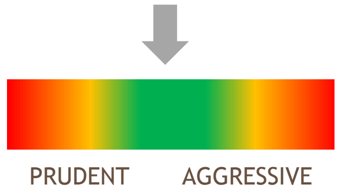
The actuary has used the following assumptions to value the future pension liability:

| | Actual used | Actuary range | PwC assessment of actuary range to market expectations |
|---|---|---|---|
| CPI increase | 2.4% | 2.4% | Reasonable and within expected range |
| Salary increase | 2.8% | - | Reasonable (Employer and scheme specific) |
| Pension increase | 2.4% | 2.4% | Reasonable and within expected range |
| Discount rate | 2.5% | 2.5-2.7% | Reasonable and within expected range |
| Mortality - LGPS: | | | |
| - Male current | 22.1 years | 21.5-22.8 | Reasonable |
| - Female current | 24.4 years | 24.1-25.1 | Reasonable |
| - Male future | 23.8 years | 23.7-24.4 | Reasonable |
| - Female future | 26.3 years | 26.2-26.9 | Reasonable |

PwC concluded:

*We are comfortable that the methodologies used to establish assumptions will produce reasonable assumptions at 31 March 2017 for all employers.*

**AUDIT CONCLUSION**



# KEY AUDIT AND ACCOUNTING MATTERS

| | AUDIT AREA | RISK DESCRIPTION | HOW RISK WAS ADDRESSED BY OUR AUDIT | AUDIT FINDINGS AND CONCLUSION |
|---|---|---|---|---|
| 5 | **Changes in presentation of the financial statements** | The Code of Practice on Local Authority Accounting requires a change to the presentation of some areas of the financial statements. This includes:<br>• Change to the format of the Comprehensive Income and Expenditure Statement (CIES)<br>• Change to the format of the Movement in Reserves Statement (MIRS)<br>• New Expenditure and Funding Analysis (EFA) note<br>• Change to the Segmental Reporting note<br>• New Expenditure and Income analysis note.<br>These changes required a restatement of the comparative figures.<br>There was a risk that these presentational changes may not have been correctly applied in the financial statements. | We reviewed the draft financial statements and checked these against the CIPFA Disclosure Checklist to ensure that all of the required presentational changes have been correctly reflected within the financial statements.<br>We confirmed that the analysis by service in the CIES is consistent with the internal reporting within the Council.<br>We reviewed the restatement of the comparative 2015/16 information to ensure that this is presented consistently with the current year basis. | Our audit identified the following issues which have been amended by management in the revised financial statements:<br>• Some of the figures in the Expenditure and Funding Analysis do not agree to the outturn information in the Narrative Report. We have suggested that a further reconciliation is disclosed within the note to explain the differences.<br>• The Segmental income note has analysed fees and charges by service, however the note does not included segmental information on other revenue, such as grants and contributions.<br>• Recovery of housing benefits overpayments within the Director of Service Delivery within the CIES show as expenditure rather than income. The adjustment of £1.478 million is noted in Appendix I. Management also adjusted for the prior year comparative of £1.687 million and amended the expenditure and income analysed by nature note accordingly.<br>• We identified that the current and prior year figures in the Income and expenditure analysed by nature note do not agree to the CIES, within both income and expenditure being misstated by £251,000 in 2016/17 and £726,000 in 2015/16. |

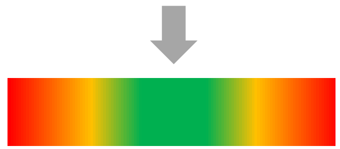
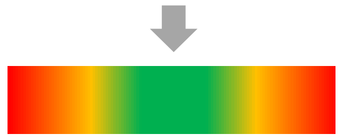
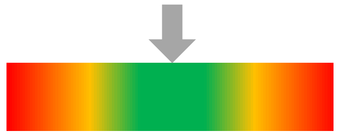
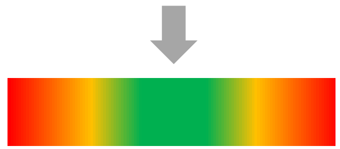
# KEY AUDIT AND ACCOUNTING MATTERS

| | AUDIT AREA | RISK DESCRIPTION | HOW RISK WAS ADDRESSED BY OUR AUDIT | AUDIT FINDINGS AND CONCLUSION |
|---|---|---|---|---|
| 6 | Recharges between the Council and Eastbourne Borough Council | The Council is currently in the process of undergoing a major Joint Transformation Programme (JTP) with Eastbourne Borough Council to merge frontline services and back office functions.<br><br>In February 2017, the vast majority of Lewes District Council employees were transferred to the employment of Eastbourne Borough Council. Recharging arrangements are in place for the employment costs of the transferred employees and for each of five service areas (Corporate Management Team, Legal Services, Information Technology, Human Resources and Asset Management).<br><br>There is a risk over the completeness and accuracy of the payroll information transferred from the Lewes payroll system (Midland Trent) onto the Eastbourne payroll system (Chris21). On a monthly basis Eastbourne Borough Council will calculate, based on these arrangements, the amount to be recharged via invoice back to the Council. There is a risk over the completeness and accuracy of these recharges.<br><br>As the risks and rewards of these arrangements are shared by both Councils, the transactions should be accounted for on a net basis within each Council's financial statements. There is a risk that these transactions may not be correctly presented in the Council's financial statements, thereby overstating income and expenditure. Manual adjustments will be required by the Council in calculating the senior officers' remuneration disclosures. There is a risk over the completeness and accuracy of these disclosures. | We planned to review the work performed by internal audit to test the migration of data from the Lewes to Eastbourne payroll systems. Internal audit did not complete any additional procedures on the transfer as they were able to rely on the work by the payroll team, and so we reviewed this testing. The Council also performs its own monthly checks on the recharged amounts on an employee level basis.<br><br>We reviewed the reasonableness and accuracy of the recharge arrangements in place between the Councils and the manual adjustments made to record shared employee and other costs on a net accounting basis.<br><br>We reviewed the senior officer's remuneration note to ensure that the disclosures for senior managers and employees earning over £50,000 are complete and accurate and that the Council's share of the costs are in line with the relevant recharge arrangement. | **Transfer of data:**<br><br>We have reviewed the data migration work completed by Eastbourne Borough Council's payroll team, and we have performed our own check to confirm that all of the transferred employees have been correctly added to the Eastbourne system.<br><br>We tested a sample of employees transferred from the Lewes to Eastbourne payroll, to check that they were transferred at the correct rate and no issues were identified.<br><br>**Recharging arrangements:**<br><br>For the five service lines which are operating full shared service arrangements under phase one of the JTP, there are set percentages in place for the amounts to be recharged which are between 40% and 50% per service. We have reviewed the Cabinet board minutes and also held discussions with management of both Councils.<br><br>We reviewed the Cabinet board minutes and also held discussions with management of both Councils. We obtained the service level agreement for Legal Services. Minutes of the Cabinet meeting in May 2016 confirmed that delegated authority was given to the Deputy Chief Executive to determine the appropriate split of JTP costs and benefits. We further reviewed the schedules prepared by the lead Council which details the contribution of each Council for each of the Asset Management, IT, Human Resources and the Corporate Management team services. |

# KEY AUDIT AND ACCOUNTING MATTERS

| | AUDIT AREA | RISK DESCRIPTION | HOW RISK WAS ADDRESSED BY OUR AUDIT | AUDIT FINDINGS AND CONCLUSION |
|---|---|---|---|---|
| 6 | Recharges between the Council and Eastbourne Borough Council (continued) | As above. | As above. | Overall we are satisfied that the governance structures in relation to the recharging arrangements are appropriate.<br><br>Eastbourne Borough Council has raised two monthly recharge invoices to the Council for both payroll and other charges for February and March 2017. We agreed these invoices to the supporting calculations prepared by Eastbourne Borough Council. The Council also reviewed these invoices against budgeted expected values prior to the invoices being paid in March 2017.<br><br>**Officers' remuneration note:**<br><br>The Senior Management Remuneration table correctly includes only those senior officers who are on the Council's payroll. The gross amounts are disclosed in the note along with the percentages which are recharged by Eastbourne Borough Council. These recharges include employers' pension contributions and employers' national insurance contributions and we have advised management that this should be clearly stated within the note.<br><br>The remuneration table for employees earning over £50,000 excludes those which are fully recharged by Eastbourne Borough Council but we have advised management to clearly state this in the revised financial statements.<br><br>The exit packages table clearly states both the number and cost of departures on the Council's payroll and those which were recharged by Eastbourne Borough Council. |

# KEY AUDIT AND ACCOUNTING MATTERS

| OTHER SIGNIFICANT ACCOUNTING ESTIMATES | | |
|---|---|---|
| **ESTIMATE** | **HOW RISK WAS ADDRESSED BY OUR AUDIT** | **AUDIT CONCLUSION** |
| Estimate of refunds for successful NDR appeals | The provision as at 31 March 2017 is £1.8 million, a decrease of £100,000 from the prior year, and the Council's share of this balance is £720,000.<br>We have reviewed the reasonableness of the assumptions applied and compared this to information available for recent appeals.<br>Management applied different success rates to different types of appeals based on the amounts repaid on appeal in recent years against the amount appealed. This takes into account both the success of a rateable value reduction appeal and for the number of years the appeal is backdated. Success rates range from 2.62% to 10% based on the property description type. This is a reasonable basis for estimating the provision for the future refunds from successful appeals. There are only three cases whereby the provision does not relate to historical data and this relates to the purpose built GP surgeries where there is no historical data. |  |
| Estimate of future write-off for uncollectable debt | The Council's largest allowances for impairment of receivables relate to housing benefit overpayments and collection fund receivables for council tax and non domestic rates.<br>**Housing benefit overpayments**<br>The impairment allowance at 31 March 2017 is £782,000, an increase of £101,000 from the prior year, against an overpayments balance of £2.15 million. The impairment rates applied to invoiced housing benefit overpayments are supported by actual write off rates. The Council estimates its impairment allowances for housing benefit overpayments by applying a percentage impairment rate between 10% and 70% to each individual debt based upon its age. We are satisfied that the assumptions underpinning the impairment allowance calculations are reasonable.<br>**Council tax arrears**<br>The Council tax provision at 31 March 2017 is £755,000. The Council's share is £117,000, an increase of £20,000 from the prior year. We are satisfied that the impairment allowance calculation is based on actual write-off rates and is reasonable.<br>**Non domestic rates arrears**<br>The non domestic rate arrears impairment allowance at 31 March 2017 is £305,000. The Council's share is £112,000, an increase of £37,000 from the prior year. We are satisfied that the impairment allowance calculation is based on actual write-off rates and is reasonable. |  |

# KEY AUDIT AND ACCOUNTING MATTERS

## OTHER ISSUES

We comment below on other issues identified in the course of our audit, of which we believe you should be aware:

| | AUDIT AREA | AUDIT FINDINGS |
|---|---|---|
| 1 | Other disclosures | We have requested that the following presentational and disclosure amendments be made to the financial statements as a result of the audit:<br>• Removal of a few immaterial notes, such as accounting policies for intangible assets and inventories<br>• Amendments to the format of the Adjustments between accounting basis and funding basis under regulations note<br>• Disclosure of the pension service cost settlement for staff transferred to Eastbourne Borough Council in the Material items of income and expense note<br>• Amendments to the Financial instruments note to separately disclose investment gains on available for sale financial assets, inclusion of fair value hierarchy levels for each financial instrument, correction to the balance sheet values disclosed for borrowings in the fair values table and disclosure of<br>• Amendments to the Financial instruments note to include the negative cash balance as a liability and to include the £4 million of short term loans within the fair values table and the liquidity risk note<br>• Amendments to the short-term creditors balance in the Financial instruments note to exclude non-contractual balances with Central Government and receipts in advance totalling £363,000<br>• Amendments to the Financial instruments note to show operational debtors past due and not impaired, rather than all debtors net of impairments<br>• Minor amendment to the audit fees note<br>• Correction to a comparative figure in the Grant income note<br>• Inclusion of footnotes to explain why the debtors note and the HRA have been re-presented<br>• Amendments to the Capital commitments note to reduce balances which were double counted in the draft financial statements (£2.168 million), and those in which there was no contractual obligation as at 31 March 2017 (£1.867 million)<br>• Disclosure of the business rates valuation at 1 April 2017 within the Events after the reporting period note. |
| 2 | Cash and cash equivalents | Management have amended the revised financial statements to show the split between cash balances which are positive from those which are in overdraft. This has increased cash and cash equivalent assets and liabilities by £260,000 on the face of the balance sheet and components of cash and cash equivalents within the cash flow statement. |
| 3 | Fraud and error | We are required to discuss with you the possibility of material misstatement, due to fraud and error, and to reassess this throughout the audit. We enquired of management regarding instances of fraud in the period, and considered throughout the audit the possibility of material misstatement of the financial statements due to fraud and error.<br>We are not aware of any instances of fraud other than housing benefit and tenancy fraud committed against the Council.<br>Our audit procedures have not identified any material errors due to fraud. |

# 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 |
|---|---|---|
| 14 | The draft financial statements, within the Statement of Accounts, was prepared and provided to us for audit on 30 June 2017.<br>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. |
| 15 | We are required to review the draft Annual Governance Statement and 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 no matters to report. |
| 16 | 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. | We noted that the outturn position as stated in the Narrative Report does not reconcile to the CIES and supporting notes. Management have amended Expenditure and Funding Analysis note in the revised financial statements which now reconciles back to the Narrative Report. |

# CONTROL ENVIRONMENT

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 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.

We note that the Council's internal audit function has issued a number of observations and recommendations on the Council's control environment during 2016/17. We have not repeated these recommendations in this report unless we consider them to highlight significant deficiencies in control which we are required to report to you.

We are not aware of any significant deficiencies in the Council's internal controls in 2016/17.

We have identified other deficiencies in controls which have been discussed with management and included in the action plan at Appendix II.

# WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

| | MATTER | COMMENT |
|---|---|---|
| 1 | 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. | Local authorities' were required to submit the unaudited DCT to HM Treasury and auditors by 7 July 2017. The Council submitted its unaudited DCT on 15 August, the delay being due to issues with locking the toolkit and staff availability.<br><br>We will submit the relevant section of the assurance statement to the National Audit Office prior to the statutory deadline. |

# 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 (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 2016/17 Planning Report issued in February 2017. 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.

We report below our findings of the work designed to address these significant risks and any other relevant use of resources work undertaken.

**Key:** ■ Significant risk

# USE OF RESOURCES

| RISK AREA | | RISK DESCRIPTION AND WORK PERFORMED | AUDIT FINDINGS AND CONCLUSION |
|---|---|---|---|
| 1 | Sustainable finances | The update to the Medium Term Financial Strategy (MTFS) to 2019/20 forecast further reductions in Government core grant funding, falling New Homes Bonus funding from 2017/18 and annual inflationary and pay award pressures. Budget gaps were identified in 2016/17 (£400,000), 2017/18 (£763,000), 2018/19 (£756,000) and 2019/20 (£617,000), resulting in an average level of required savings of £634,000 per annum over the four year period.<br>The Council currently has a number of major development / transformation programmes in place to either help facilitate these savings or create additional revenue streams in the medium term, to close the budget gaps.<br>In our planning report we identified a risk that the MTFS does not adequately take account of the investment costs and savings associated with these projects, and that the Council does not have appropriate arrangements to monitor progress in delivering benefits from these projects against the MTFS.<br>As a starting point for assessing the effectiveness of the Council's arrangements for ensuring sustainable finances, we reviewed current year outturn and the Council's reserves position. | **General Fund**<br>The Council budgeted to spend £11.817 million on General Fund services in 2016/17 (incorporating a savings target of £685,000) and to make a net transfer to earmarked reserves of £780,000. The actual cost of services (before technical accounting adjustments) in 2016/17 was £11.646 million, an underspend of £171,000. The actual net transfer to reserves was £400,000 more than budgeted. With increased financing from business rates and Government grant, overall the general fund balance decreased by only £4,000, to £2.062 million. The closing General Fund balance remains above the minimum level of £1 million recommended by the Section 151 Officer. The total Earmarked General Fund reserves balance fell by £623,000 to £10.096 million at 31 March 2017.<br>The Council achieved efficiency savings and reduced expenditure of £677,000.<br>**Housing Revenue Account**<br>A surplus of £542,000 was achieved on the HRA in 2016/17 compared to an original budget surplus of £519,000. Total HRA reserves (HRA balance and major repairs reserve) totalled £7.805 million at 31 March 2017, an increase of £2.922 million from the prior year. The total contribution made to the major repairs reserve is higher than the original budget to reflect the current known cost of replacing components.<br>**Collection Fund**<br>The council tax balance in the Collection Fund was in surplus at 31 March 2017 by £1.792 million of which the Council's share was £281,000. 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 98.2% for the year, which is in line with the prior year.<br>The Council collected £24.85 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 £7.4 million in tariff to the Government, and a payment of £473,000 into the East Sussex Business Rates pool of which £236,000 was returned. The Council reported a collection rate of 98% for the year, which is down compared to 98.3% in the prior year. The overall domestic rates balance on the Collection Fund at 31 March 2017 is in deficit by £1.598 million of which the Council's share was £639,000. The Council has reported that this is largely the result of appeals against business rate valuations. |

# USE OF RESOURCES

| RISK AREA | | RISK DESCRIPTION AND WORK PERFORMED | AUDIT FINDINGS AND CONCLUSION |
|---|---|---|---|
| 1 | **Sustainable finances (continued)** | We reviewed the assumptions used in the MTFS for investment costs and savings associated with major development/transformation programmes.<br><br>We also reviewed the Council's arrangements for monitoring the progress of these programmes against the budgeted savings targets. | **Joint transformation programme (JTP) Eastbourne Borough Council to provide joint services**<br><br>As noted on page 14, the Council is currently in the process of undergoing a major Transformation Programme with Eastbourne Borough Council, both in the provision of frontline services and the organisation of back office functions.<br><br>In October 2016, a Joint Efficiency Statement was submitted to the Department for Communities and Local Government (DCLG), which covered sharing of services, asset management, growing the economy and strategic procurement. Management has stated that the councils were commended by DCLG on their unified approach and would be an exemplary example of such practices going forward.<br><br>In November 2016, Cabinet approved a three phase delivery of the programme, with Phase one lasting from September 2016 to March 2017 for management and corporate activity to deliver £1.05 million of savings across the two councils. Phase two is in 2017/18, covering frontline services and delivery of a further £1 million of savings, and Phase three is expected to be in 2018/19 with an ongoing review of support services delivering £0.8 million of savings. Although the exact savings figure for Phase one will not be established until the final vacant roles are recruited, management expects to slightly exceed the savings target.<br><br>Good progress has been made on key technology projects to align the two councils, which includes one network, one telephone system, a joint mobile phone contract, joint e mail domain and joint branding for shared public services. A condition of the Cabinet Office granting permission for the use of the joint domain was to deliver a new joint website but the end of Summer 2017, however this is still in progress. Phase two is now in progress, the largest of the three phases, with appointments expected to be confirmed in November 2017.<br><br>The Programme has a clear governance structure led by the Programme Board, which meets bimonthly and consists of the leaders and deputy leaders, the leaders of the main opposition group, the Chief Executive and three other Corporate Management Team members. There is also a JTP consultative forum which meets on a bimonthly basis, and includes a range of staff and union representatives.<br><br>We note that the savings targets currently only include staff costs. A number of other savings are expected by the councils but are not included in the MTFS expectations as they cannot yet be quantified.<br><br>**North Street Quarter Development**<br><br>Management expects this major capital project to bring over 400 new homes to the town, 40% of which will be affordable as well as providing a new health centre, flood defences and relocation of the fire station. This is a long term project still in the development phase and in 2016/17 the Council successfully secured £2 million of funding from the Coast to Capital Local Enterprise Partnership to purchase Springman House to allow for the relocation of the Lewes Fire Station. Further details of this project are covered on page 25 below. |

# USE OF RESOURCES

| RISK AREA | | RISK DESCRIPTION AND WORK PERFORMED | AUDIT FINDINGS AND CONCLUSION |
|---|---|---|---|
| 1 | Sustainable finances (continued) | As above. | **Newhaven Enterprise Zone**<br>Newhaven Enterprise Zone is a collaboration between Coast to Capital and the Council. The project aims to facilitate the economic regeneration of Newhaven and shift the town to a higher value economy over the next 25 years. The zone officially commenced on 1 April 2017 and includes the creation of new commercial floor space and over 2,000 jobs. In 2016/17 the Council was successful in securing £3.1 million of funding from the Coast to Capital Local Enterprise Partnership for sites across the zone, which enabled the purchase of the Railway Quay site in the town to be redeveloped. Although no financial gains have been realised from the scheme so far, this is a long term project which is expected to increase revenue to the Council through business rates and other ancillary services.<br>**Waste and Recycling**<br>The Waste and Recycling service generates income from charges to customers for Commercial Waste and Green Waste collections, the sale of recyclable materials and 'recycling credits' paid by East Sussex County Council in recognition of waste diverted from landfill. In the 2020 savings plan, the Council reported an expected saving of £300,000 in respect of the Waste and Recycling service in 2017/18, noting that significant work was required to deliver this saving. In the 2021 savings plan this has been revised down to an expected generation of £206,000 and this is in line with the fall in savings required per MTFS from £763,000 to £641,000. In February 2017 Cabinet agreed to close its material recycling facility in Lewes which required significant investment to remain in operation and the running costs of which exceed the value of income generated from recyclate sales following in significant fall in the market value of recyclates in recent years. Management is in discussions to create a joint waste service with Eastbourne Borough Council, and in the short-term the Council is entering into a contract with a recycling disposal partner for a co-mingled recycling collection service.<br>**Housing investment and commercial development**<br>In March 2017, Cabinet authorised officers to establish both a solely owned Lewes Housing Investment Company (LHIC) and a Joint Housing Investment Partnership jointly owned with Eastbourne Borough Council. LHIC and Aspiration Homes LLP were incorporated on 4 July 2017 and 30 June 2017 respectively and is a jointly owned entity between the Council and Eastbourne Borough Council. The benefits of this structure is that through LHIC the Council can undertake more commercial development with the LLP acting as the asset holding vehicle for affordable housing properties developed through the commercial development programmes. Although there was no benefit realisation in 2016/17, it is expected to assist with the savings gap going forward. |

# USE OF RESOURCES

| RISK AREA | | RISK DESCRIPTION AND WORK PERFORMED | AUDIT FINDINGS AND CONCLUSION |
|---|---|---|---|
| 1 | **Sustainable finances (continued)** | | **Conclusion**<br>We are satisfied that the MTFS takes accounts of the investment costs associated with the Council's major transformational projects, and once these scheme are further established, management should be in a better place to forecast all of the associated savings going forward. |
| 2 | **Informed decision making on major capital projects** | As part of the 2015/16 audit of use of resources, we reviewed the governance and arrangements relating to the "New Homes" project and identified scope for improvement in arrangements underpinning the project. We agreed an action plan with officers for lessons learnt to be applied to future projects of this size and nature including:<br>• Earlier disclosure of potential development sites<br>• Public consultation in preliminary stages<br>• Updating the Property Strategy and Asset Management Plan<br>• More structured approach to carrying out due diligence checks.<br>The Council has a number of ongoing major capital projects, including regeneration of the North Street Quarter in Lewes town centre.<br>We identified a risk that the Council may not have applied the lessons learnt from the New Homes project in planning for, and informing, its decision making on other significant capital projects.<br>We followed up on the progress made in addressing the action plan agreed as part of the 2015/16 use of resources audit in respect of significant capital projects. | Management has made considerable progress against the action plan from 2016/17 as detailed in Appendix II, which includes the launch of the project management toolkit and corresponding training in July 2017, and adoption of a new asset management plan by Cabinet in June 2017.<br>From discussion with the Head of Regeneration, we have assessed whether management has applied the lessons learnt from the New Homes project to the North Street Quarter project, which is currently in progress.<br>The North Street Quarter is a project that has been going on for a number of years, and first initially went to Cabinet in 2013. Although the initial consultations were before the recommendations made in our prior year Audit Completion Report, some lessons learnt have still been applied to this project.<br>The Council held considerable detailed public consultations prior to the planning application going in, in 2015. To ensure that the public engagement has continued, the Council has continued that process through a formal Sounding Board, as well as an Engagement Board on specific areas (design and landscape and play).<br>The Council has set up a Members Oversight Board, made up of the lead members of the two main political groups. This board meets on an ad hoc basis, when key decisions are being made or at key project stages, with the board being engaged in the run up to any decisions. They also receive feedback on progress and updates on key project streams. These meetings are attended by the Corporate Management Team and discussions include some key topics such as delivery options and the Springman House redevelopment project.<br>Management obtained delegated authority to carry out due diligence for the revised delivery route for Phase 1 of the scheme which would involve Santon North Street's own development company as the development partner, to revise the scope and content of the Land Collaboration agreement to ensure that it contains the mechanisms necessary to protect the Council's interests, and to identify the assets that the Council would wish to secure from the scheme. Consideration will also be given to the potential role of the Council as lender of construction finance, and to the opportunities and risks that may be involved. The outcomes of the due diligence work is expected to be taken to the September 2017 Cabinet meeting.<br>There is clear evidence that these recommendations have been applied to the North Street Quarter, although this project was already in progress before the recommendations were agreed. |

# APPENDICES

# APPENDIX I: 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, and in aggregate, on the financial statements.

## ADJUSTED AUDIT DIFFERENCES

Our audit has not identified any material misstatements.

Our audit identified two immaterial adjusted misstatements:

- £260,000 in respect of the classification of cash and cash equivalents between those which are in surplus and those in overdraft
- £1.478 million to reclassify recovery of housing benefit overpayments within the Director of Service Delivery line in the CIES from negative expenditure to income (and £1.687 million to reclassify the same within the prior year comparatives)

These adjustments have no impact on net assets or the surplus on the provision of services.

A few other presentational changes have been made to the financial statements as a result of the audit.

## UNADJUSTED AUDIT DIFFERENCES

We identified an immaterial misstatement in the value of specialised assets based on the depreciated replacement costs method, whereby indexation as advised by the Council's valuer had not been applied since the assets were last revalued as at 1 April 2014. Following further enquiries of the valuer as a result of the audit, management has recognised £1.246 million of revaluation increases to other land and building assets held at depreciated replacement cost. The revaluation reserve is understated by £1.219 million and the gain on impairment reversals is understated by £27,000 which is trivial and is reversed through the Movements in Reserves Statement to the Capital Adjustment Account so there is no impact on the general fund.

We have reported in the table below the impact of overstatement of expenditure of £74,000 due to understatement of expenditure in the prior year.

The cumulative impact of these two misstatements is to which would increase the surplus on provision of services by £101,000 to £7.218 million.

# APPENDIX I: AUDIT DIFFERENCES

| | | INCOME AND EXPENDITURE | | STATEMENT OF FINANCIAL POSITION | |
|---|---|---|---|---|---|
| | | DR | CR | DR | CR |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Surplus on the provision of services before adjustments | (7,117) | | | | |
| DR Other land and buildings net book value | | | | 1,246 | |
| CR Revaluation reserve | | | | | (1,219) |
| CR Impairment reversals to NCOS | (27) | | (27) | | |
| DR General fund through MIRS (to reverse CIES gain) | | | | 27 | |
| CR Capital adjustment account | | | | | (27) |
| *(1) Impact of applying indexation to DRC assets since the last formal revaluation in April 2014* | | | | | |
| DR Opening general fund reserves | | | | 74 | |
| CR Expenditure | (74) | | (74) | | |
| *(2) Impact of brought forward unadjusted misstatements (net overstatement of expenditure in the prior year; this could not be corrected in the current year by way of a prior year adjustment as it is not material)* | | | | | |
| **TOTAL UNADJUSTED AUDIT DIFFERENCES** | (101) | - | (101) | 1,347 | (1,246) |
| Surplus on provision of services if adjustments accounted for | (7,218) | | | | |

# APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

**Key:** ■ Significant deficiency in internal control ■ Other deficiency in internal control ■ Other observations

| AREA | OBSERVATION AND IMPLICATION | RECOMMENDATION | MANAGEMENT RESPONSE | RESPONSIBLE OFFICER | TIMING |
|---|---|---|---|---|---|
| ANNUAL REPORT AND ACCOUNTS | | | | | |
| REVIEW OF VALUATIONS | In the draft accounts, management reported that £34.1 million of other land and building assets had not been revalued since 1 April 2017.<br>From our audit we identified that the movement in these assets over the past three years is now material and the indexation provided by the valuers should be applied. | We recommend that management critically review their level of assets not revalued in the year on an ongoing basis to assess whether there is a risk that assets maybe be materially misstated and arrange revaluations on specific assets accordingly. | XXX | XXX | XXX |
| TENANCY AGREEMENTS | Our testing of HRA income found that one tenancy agreement could not be found. We carried out alternative audit procedures to confirm the existence and accuracy of HRA income from this case and found no issues. | We recommend that management carried out a thorough review to determine if there are other signed tenancy agreement that cannot be located and take appropriate action to rectify the issue. | XXX | XXX | XXX |

# APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

| FOLLOWING UP OF RECOMMENDATIONS RELATING TO THE NEW HOMES PROJECT | | | |
|---|---|---|---|
| **AREA** | **RECOMMENDATION** | **MANAGEMENT RESPONSE** | **PROGRESS BY MANAGEMENT** |
| NEW HOMES PROJECT- DISCLOSURE OF DEVELOPMENT SITES, PUBLIC CONSULTATION AND FEASIBILITY CHECKS | 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. In developing this plan for each project, management should consider the benefits of carrying out preliminary targeted consultation before entering into the procurement stage.<br>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.<br>Training on the Council's revised project methodology to be provided to all Heads of Service and Corporate Management Team (CMT).<br>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. | The project management toolkit was launched in July 2017 following a number of training sessions delivered through the Communities of Practice over the last year as the toolkit was developed. The toolkit covers a specific section on consultation and engagement including appropriate templates. Heads of Service received training during 2016/17 as part of the toolkit rollover and CMT are due to receive their training in September 2017. |
| NEW HOMES PROJECT- PROPERT STRATEGY AND ASSET MANAGEMENT PLAN | The Council should complete the update of its previous Asset Management Plan, to underpin its Property Strategy.<br>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 Asset Management Plan. This will take account of the requirements of the Council's Property Strategy.<br>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. | The Property Strategy has been replaced by a joint Asset Management Plan with Eastbourne Borough Council. The draft was circulated for consultation in December 2016 and formally adopted by Cabinet in June 2017.<br>Management are in the process of refining policies to support the Asset Management Plan, and the policy principles were adopted by Cabinet in June 2016.<br>An example of this is the asset challenge process which sets out how the Property & Facilities Shared Service with work with service managers to identify how the existing portfolio meets predicted service delivery and demands. |

# APPENDIX III: MATERIALITY

| MATERIALITY – FINAL AND PLANNING | | |
|---|---|---|
| | FINAL | PLANNING |
| Materiality | £1,600,000 | £1,400,000 |
| Clearly trivial threshold | £32,000 | £28,000 |

Planning materiality of £1,400,000 was based on 2% of prior year gross expenditure excluding reversal of previous impairments on council dwellings. We revised our materiality following our receipt of the draft financial statements which indicated a higher level of expenditure than the prior year.

# APPENDIX IV: INDEPENDENCE

We confirm that the firm complies with the Financial Reporting Council's Ethical Standards for Auditors 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. These policies include engagement lead and manager rotation, for which rotation is required after 5 years and 10 years respectively.

| INDEPENDENCE - ENGAGEMENT TEAM ROTATION | |
|---|---|
| Senior team members | Number of years involved |
| Janine Combrinck - Audit engagement lead | 2 |
| Lucy Trevett - Audit manager | 1 |

We are not aware of any financial, business, employment or personal relationships between the audit team, BDO and the Council.

# APPENDIX V: FEES SCHEDULE

| | 2016/17 FINAL PROPOSED £ | 2016/17 PLANNED £ | 2015/16 FINAL £ | EXPLANATION FOR VARIANCES |
|---|---|---|---|---|
| Code audit fee | 46,418 | 46,418 | 46,418 | As per PSAA scale fee |
| Additional audit fee* | 500 | 1,000 | 4,470 | |
| Housing benefits subsidy claim** | 11,699 | 15,598 | 14,960 | |
| **TOTAL AUDIT AND CERTIFICATION FEES** | **58,617** | **63,016** | **65,848** | |
| Reporting on government grants: | | | | |
| • Pooling of Housing Capital Receipts return | 1,500 | 1,500 | 1,500 | |
| Fees for other non-audit services | - | - | - | |
| **NON-AUDIT ASSURANCE SERVICES** | **1,500** | **1,500** | **1,500** | |
| **TOTAL ASSURANCE SERVICES** | **60,117** | **64,516** | **67,348** | |

*An additional fee of £4,470 was agreed with management in respect of additional work carried out in our review of governance around the New Homes project in our 2015/16 audit, following concerns raised with us by a local elector. A further additional fee of £1,000 was proposed for our follow up of the Council's progress in addressing recommendations from this review, as applicable to other significant capital plans, as part of our 2016/17 audit. Due to the assistance of internal audit in completing this work, we have proposed to reduce this fee down to £500. This additional fee in subject to approval by PSAA and will be billed on completion of the work.

**The scale fee is £11,699. Our fee in the planning letter of £15,598 was based on the 2014/15 charge as the 2015/16 certification work was still ongoing. No additional fees were paid by the Council upon completion of this work, and so the 2015/16 charge agreed to the 2015/16 fee in the planning letter. We have revised the proposed fee for 2016/17 down to the scale fee and we will discuss additional fees with management upon completion of this work if required.

# APPENDIX VI: DRAFT REPRESENTATION LETTER

TO BE TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP
55 Baker Street
London
WIU 7EU

28 September 2017

Dear Sirs

Financial statements of Lewes District Council for the year ended 31 March 2017

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 2017 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 Chief Finance Officer 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 2017 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 international financial reporting standards and preventing and detecting fraud and error.

# APPENDIX VI: DRAFT REPRESENTATION LETTER

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 councillors, 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.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by councillors, employees, former employees, analysts, regulators or any other party.

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.

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): 2.4%
- Rate of increase in salaries: 2.8%
- Rate of increase in pensions: 2.8%
- Rate of discounting scheme liabilities: 2.5%

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 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 are not materially misstated at year end. In particular, we are satisfied that:

# APPENDIX VI: DRAFT REPRESENTATION LETTER

- Council dwellings revalued in the year are based on existing use prices discounted for social housing
- Specialised operational land and buildings revalued in the year where there is no market based evidence of current value are based on rebuild index prices
- Non-specialised operational land and buildings revalued in the year are based on existing use prices.

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

We are also satisfied that properties not revalued in the year are not materially misstated at year end.

c) Allowance for non-collection of receivables

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

d) Non domestic rate appeals provision

We are satisfied that the provision recognised for non-domestic rates appeals is materially correct, and the calculation of historic appeals are consistent with those advised by the Valuation Office Agency. We confirm that the successful rates applied to outstanding appeals as at 31 March 2017 are consistent with our knowledge of the business.

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 councillors, 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.

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 and member 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

Deputy Chief Executive (Chief Finance Officer), [date]

Councillor Chartier

Chair of the Audit and Standards Committee, Signed on behalf of the Audit and Standards Committee, [date]

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 the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.



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