

# Audit and Governance Committee

## 19 September 2018



**Time and venue:**

**6.00 pm in the Court Room at Eastbourne Town Hall, Grove Road, BN21 4UG**

**Membership:**

**Councillor Dean Sabri (Chairman); Councillors Troy Tester (Deputy-Chair)  
Sammy Choudhury, Penny di Cara, Paul Metcalfe, Md. Harun Miah,  
Margaret Robinson and Barry Taylor**

**Quorum: 3**

*Published: Tuesday, 11 September 2018*

## Agenda

- 1 Minutes of the meeting held on 25 July 2018. (Pages 1 - 6)**
- 2 Apologies for absence.**
- 3 Declarations of Disclosable Pecuniary Interests (DPIs) by members as required under Section 31 of the Localism Act and of other interests as required by the Code of Conduct.**
- 4 Questions by members of the public.**

On matters not already included on the agenda and for which prior written notice has been given (total time allowed 15 minutes).
- 5 Urgent items of business.**

The Chairman to notify the Committee of any items of urgent business to be added to the agenda.
- 6 Right to address the meeting/order of business.**

The Chairman to report any requests received to address the Committee from a member of the public or from a Councillor in respect of an item listed below and to invite the Committee to consider taking such items at the commencement of the meeting.
- 7 Internal Audit report - Quarter 1 April 1 to 30 June 2018. (Pages 7 - 16)**

Report of Audit Manager (Eastbourne).

**8 17/18 Annual Audit Letter.** (Pages 17 - 30)

Report of BDO – external Auditor.

## Information for the public

**Accessibility:** Please note that the venue for this meeting is wheelchair accessible and has an induction loop to help people who are hearing impaired. This agenda and accompanying reports are published on the Council's website in PDF format which means you can use the "read out loud" facility of Adobe Acrobat Reader.

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**Public participation:** Please contact Democratic Services (see end of agenda) for the relevant deadlines for registering to speak on a matter which is listed on the agenda if applicable.

## Information for councillors

**Disclosure of interests:** Members should declare their interest in a matter at the beginning of the meeting.

In the case of a disclosable pecuniary interest (DPI), if the interest is not registered (nor the subject of a pending notification) details of the nature of the interest must be reported to the meeting by the member and subsequently notified in writing to the Monitoring Officer within 28 days.

If a member has a DPI or other prejudicial interest he/she must leave the room when the matter is being considered (unless he/she has obtained a dispensation).

**Councillor right of address:** Councillors wishing to address the meeting who are not members of the committee must notify the Chairman and Democratic Services in advance (and no later than immediately prior to the start of the meeting).

## Democratic Services

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## **Audit and Governance Committee**

**Minutes of meeting held in Court Room at Eastbourne Town Hall, Grove Road, BN21 4UG on 25 July 2018 at 6.00 pm**

### **Present:**

Councillor Dean Sabri (Chairman)

Councillors Sammy Choudhury, Penny di Cara, Paul Metcalfe, Margaret Robinson, Barry Taylor and Colin Swansborough (Reserve) (as substitute for Troy Tester)

### **Officers in attendance:**

Alan Osbourne, Deputy Chief Executive  
Pauline Adams, Head of Finance  
Jackie Humphry, Audit Manager  
Janine Combrinck, BDO

### **Also in attendance:**

Katie Maxwell, Committee Officer

### **32 Minutes of the meeting held on 7 March 2018.**

The minutes of the meeting held on 7 March 2018 were submitted and approved and the Chair was authorised to sign them as an accurate record.

### **33 Apologies for absence.**

Apologies for absence were reported from Councillor Tester and Councillor Miah.

### **34 Declarations of Disclosable Pecuniary Interests (DPIs) by members as required under Section 31 of the Localism Act and of other interests as required by the Code of Conduct.**

There were none.

### **35 Internal Audit Report to 31 March 2018.**

The Committee considered the report of the Internal Audit Manager regarding a summary of the activities of Internal Audit for the year 1 April 2017 to 31 March 2018. A list of all final audit reports issued in final the level of

assurance attained were detailed in the report. None of the reports had been given an assurance level of inadequate.

Audit work carried out to date against the audit plan to the end of March 2018 was set out in appendix A. Main points from the appendix were summarised in the report and related to "IT Contract and Change Controls".

Further information on reports issued in final during the year with an assurance level below "Performing Well" was set out in Appendix B, with any issues highlighted in the reviews which informed the assurance level given.

The Committee was reassured that this status was the assurance level given at the time the final report was issued and did not reflect recommendations that had been addressed.

Due to there being no outstanding actions relating to audits that were issued with an "inadequate assurance level" there was no appendix C.

The committee was advised that a new piece of software had been procured for audit which would allow for all audit work to be stored in one place and accessible to the teams across both sites.

Work undertaken by the Corporate Fraud team and East Sussex Counter Fraud Hub was also detailed in the report and at appendix D.

**RESOLVED: (Unanimous)** That the report be noted.

### **36 Risk Management.**

The Committee considered the report of the Internal Audit Manager regarding an update of the Strategic Risk Register.

The Strategic Risk Register had been taken to Corporate Management Team (CMT) on 27 June 2018 for the regular quarterly review and the updated register was appended to the report.

Changes to risk SR-007 (Council materially impacted by the medium to long term effects of an event under the Civil Contingencies Act) and SR\_009 Commercial Enterprises were detailed in the report.

**RESOLVED:(Unanimous)** That the amended Strategic Risk Register as appended to the report be agreed.

### **37 Annual Governance Statement.**

The Committee considered the report of the Internal Audit Manager regarding the Annual Governance Statement, which detailed the key elements of the systems and processes of the Council's governance arrangements.

The Annual Governance Statement was a report produced at the end of the year on the control environment of the Council and was a statutory document that accompanied the statutory Statement of Accounts once adopted. The Statement provided a structure in which to consider the Council's governance arrangements and their effectiveness. This ensured that major control issues were identified and action would be taken to address those issues.

Appendix 1 of the report detailed the framework for gathering the assurances and how that affected the relationship with partners, stakeholders and the community. Following the framework should ensure that the Council met the six principles of corporate governance.

A timetable for the gathering of assurances to produce the Annual Governance Statement was set out in Appendix 2 of the report.

Appendix 3 showed the Manager's Assurance Statement which included coverage of the Bribery Act, Safeguarding, Regulation of Investigatory Powers Act 2000 (RIPA) and frauds over £10K. The statement was intended to cover the operational, project and partnership responsibilities of the Heads of Service. It could also be used to highlight any concerns and subsequent actions required to improve governance throughout the Council.

These statements had been completed by the Directors and Assistant Directors and passed through to the Chief Executive and Deputy Chief Executive. The comments made on the statements were considered for inclusion in the Annual Governance Statement.

The sources used to compile the governance issues and subsequent action plan were detailed in the report. The Internal Audit Manager advised that completed Managers' Assurance Statements had been returned from Directors and Assistant Director. Further details were contained in the report.

After discussions with Corporate Management Team (CMT) they considered that the risks associated with the JTP were being prioritised and work was ongoing to mitigate the risks. It would therefore appear in the body of the Statement and was not a separate significant governance issue.

A section on Managing the Risk of Fraud and Corruption was detailed in the report.

Once approved by the Committee, the Statement would be given to the Chief Executive and Leader of the Council to sign before it was published alongside the Statement of Accounts.

**RESOLVED: (Unanimous)** That the Annual Governance Statement for 2017/18 as appended to the report be approved.

The committee considered the report of the Head of Finance seeking agreement on the audited accounts for 2017/18 under powers delegated by the Council.

The committee was advised that the statutory deadline for local authorities to publish draft accounts and make them available to the auditor had been brought forward this year by one month, from 30 June to 31 May. The deadline for completion of the publication of the audited accounts had also been brought forward by two months, from 30 September to 31 July. The draft accounts had been submitted to BDO for audit on 31 May and had been available on the Council's website from that date.

Members noted that that there had been no major accounting changes to the Statement of Accounts for 2017/18. BDO, the Council's external auditor had now issued the draft ISA260 Annual Governance Report which was included as a separate report later in the agenda.

BDO had indicated that subject to satisfactory completion of the outstanding work it was anticipated that an unmodified audit opinion on both this Council's accounting statements and the group accounting statements would be issued. The opinion was expected to be given before the statutory deadline of 31 July 2018.

A full list of all the major corrected audit differences was detailed within the report and at appendix I of BDO's Audit Completion (ISA260) Report.

There were no significant deficiencies in the Control Environment for 2017/18. However BDO had identified two other deficiencies and full details of the observations, implications, recommendations and management responses were given at appendix II of BDO's report.

The Committee expressed its thanks to Officers for the work undertaken for the audit.

**RESOLVED: (Unanimous)** That that the final accounts for 2017/18 be approved.

2. That the unadjusted audit differences identified by External Audit be noted and,

3. That delegated authority be given to the Chief Finance Officer to make amendments to the Statement of Accounts as necessary.

### **39 Audit completion report.**

The Committee considered the report of the external auditors BDO regarding the Annual Governance Report which detailed the key elements of the systems and processes of the Council's governance arrangements.

Ms Combrinck, from BDO was in attendance to present the report and respond to Members' questions.



The Committee was given an overview of the key findings from the audit of the financial statements, outstanding matters, control environment, Whole of Government Accounts (WGA) and use of resources. Further details were contained in the report.

Subject to the resolution of outstanding matters set out in the report, BDO anticipated issuing an unmodified opinion on the financial statements for the year ended 31 March 2018.

The Committee expressed its thanks to Ms Combrinck and BDO for the work undertaken for the audit.

**RESOLVED: (Unanimous)** That the Annual Governance Report for 2017/18 be noted.

The meeting ended at 6.38 pm

Councillor Dean Sabri (Chairman)

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# Agenda Item 7

<b>Body:</b>	AUDIT AND GOVERNANCE COMMITTEE
<b>Date:</b>	19 SEPTEMBER 2018
<b>Subject:</b>	Internal Audit Report to 30 <sup>th</sup> June 2018
<b>Report Of:</b>	Audit Manager
<b>Ward(s)</b>	All
<b>Purpose</b>	To provide a summary of the activities of Internal Audit for the first quarter of the year 1 <sup>st</sup> April 2018 to 30 <sup>th</sup> June 2018.
<b>Recommendation(s):</b>	That the information in this report be noted and members identify any further information requirements.
<b>Contact:</b>	Jackie Humphrey, Audit Manager, Telephone 01323 415925 or internally on extension 5925. E-mail address jackie.humphrey@lewes-eastbourne.gov.uk

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## 1.0 Introduction

- 1.1 The work of Internal Audit is reported on a quarterly basis to demonstrate work carried out compared to the annual plan and to report on the findings of audit reports issued since the previous meeting of the committee.
- 1.2 The annual audit plan for 2018/19 was agreed by the Audit and Governance Committee in March 2018.

## 2.0 Review of work carried out in the first quarter of the financial year 2018/19.

- 2.1 A list of all the audit reports issued in final from 1<sup>st</sup> April 2018 to 30<sup>th</sup> June 2018 is as follows:

*NB. These are the Assurance Levels given at the time of the initial report and do not reflect findings at follow up.*

Debtors (Annual 2017/18)	Performing Excellently
Housing Rents(Annual 2017/18)	Performing Well
Main Accounting (Annual 2017/18)	Performing Excellently
NNDR (Annual 2017/18)	Performing Excellently
Safeguarding	Performing Inadequately
Devolved Budgets	Performing Well
Contracts Monitoring	Performing Adequately

## Levels of Assurance - Key

Performing inadequately	Major weaknesses. Insufficient controls in place or controls not being applied. Fundamental improvements required. – High risk.
Performing adequately	Some important weaknesses. Key controls need to be improved. – Medium to high risk.
Performing well	Important strengths but some areas for improvement. – Medium to low risk.
Performing excellently	Major strengths. Minor or no recommendations. A good example of internal control. – Low risk.

- 2.2 Appendix A shows the work carried out against the annual plan to the end of June 2018. It should be noted that at the beginning of June an Auditor left the team. Our part-time auditor has agreed to work full-time from the beginning of August. However, it has been decided to hold the part-time post vacant whilst Phase 3 savings are being considered. This will impact on the completion of the audit plan going forward.
- 2.3 Appendix B is the list of all reports issued in final during the year which were given an assurance level below "Performing Well", with any issues highlighted in the reviews which informed the assurance level given.
- 2.4 During the quarter, one report was issued with an assurance level of Inadequate. As this review covered the Safeguarding of Children an update on the current situation has been requested from the owners of the recommendations made. While Safeguarding appears to be adequately embedded the recommendations made were to ensure that the processes are correctly recorded in all relevant areas. This will ensure that compliance is clear and transparent. The responses received from management demonstrate that in all areas either the recommendations have already been addressed or good progress is being made. The full follow up will be carried out at the end of September/beginning of October.
- 2.5 The committee is reminded that these are the assurance levels that were given at the time the final report was issued and do not reflect recommendations that have been addressed. In order to clarify this a column has been added to show the assurance level given in the latest follow up carried out.
- 2.6 Where follow ups of reviews given an Inadequate assurance level show recommendations are not being addressed, the outstanding recommendations, and client comments from the report, will be listed at Appendix C. It should be noted that the recommendations listed were outstanding at the time of the last follow up review. If they have been addressed since this time this will not be noted or reported until the next follow up review is carried out.
- 2.7 However, there is no appendix C attached to this report as there are no outstanding actions relating to audits that were issued with an "inadequate" assurance level.
- 2.8 Work is ongoing with setting up the new software for Audit. The initial set up

phase is complete and this will be transferred to a test system so the set up can be tested and training will be given on its use in mid-September. Progress will be further reported to the next meeting of the committee.

### **3.0 Corporate Fraud**

- 3.1. The team has undertaken a detailed review of Council Tax Exemptions and Disregards looking at areas of weakness or where reviews have not been undertaken. This has highlighted 29 Council Tax cases requiring further investigation and resulted in 27 amended accounts providing in excess of £21k in cash income.
- 3.2. Work has also commenced on NNDR where a test sample of data has highlighted a number of inconsistencies. 10 cases have been reviewed with the first amendment creating £2k of savings being identified. A further joint working project is now in the process of being constructed along with a data matching service with other Sussex Local Authorities.
- 3.3. The team have continued to raise awareness of fraud risk within the authority with team presentations and social media campaigns highlighting social housing and Council Tax fraud. A project with homeless preventions has been commenced using credit checks to safeguard against fraud. Closer working relationships with the Neighbourhood Housing team has resulted in the successful return of three properties.
- 3.4. Right to buy applications have gradually increased with nine applications received in total within this quarter. Of these cases four were withdrawn as part of the involvement of the Counter Fraud team resulting in a saving of £319,000 to the authority.
- 3.5. The team are continuing to review Council Tax Reduction (CTR) applications which have not been re-assessed for over two years. This has resulted in finding over £10k in CTR overpayments and weekly incorrect reduction awards which are now recoverable. There has also been an increase in Housing Benefit Matching Service (HBMS) reviews where, of the 66 cases investigated, overpayments and weekly incorrect benefit awards in excess of £27k have been found.
- 3.6. The 2016-17 National Fraud Initiative has now almost been completed with one case outstanding. Within the last 46 files, errors of around £5k have been found. However, of the 2000 files received, errors of only £17k were found in total. An approach to checking the matches for the upcoming 2018-19 programme, which will reduce the amount of checking, is currently being considered.
- 3.7. The team are continuing to look at other areas of fraud with the commencement of a project looking at Disabled Facility Grants and recommencing the implementation of Identity Verification software and scanners across the organisations.
- 3.8. Appendix D shows the work of the Corporate Fraud team for the first quarter of the year.

#### **4.0 Consultation**

4.1 Respective Service Managers and Heads of Service as appropriate.

#### **5.0 Resource Implications**

5.1 Financial – Delivered within the approved budget for Internal Audit

5.2 Staffing – None directly as a result of this report.

#### **6.0 Other Implications**

6.1 None

#### **7.0 Summary of Options**

7.1 None

#### **8.0 Recommendation**

8.1 That the information in this report be noted and members identify any further information requirements.

**Jackie Humphrey**  
**Audit Manager (Eastbourne)**

**Background Papers:**

			Planned days	Actual days	Notes / Reason for Variance
ANNUAL REVIEWS	Benefits	Governance	15	0.3	Completing 17-18 review
	Cash and Bank	Governance	10		
	Council Tax	Governance	10		
	Creditors	Governance	15		
	Debtors	Governance	15		
	Housing Rents	Governance	15	5.4	Completing 17-18 review
	Main Accounting	Governance	10	0.4	Completing 17-18 review
	NNDR	Governance	10	0.1	Completing 17-18 review
	Payroll	Governance	10		
	Treasury Management	Governance	5		
	IT	Governance	4		
	Theatres Reconciliation	Governance	5		
	Claims work		115	43.2	Completing 16-17 and commencing 17-18 work
			<b>239</b>	<b>49.4</b>	
Page 11 EBC resources only	Corporate Credit Car Usage	Operational	10		
	Theatres	Operational	20		
	Housing (inc EHL contract)	Operational	20		
	Land Charges and Searches	Operational	5	5.4	To draft
	Devolved Budgets	Operational	7	6.8	Completed
	Cafi - Purchasing	IT	10		
	Car Parking including permits	Operational	10	9.3	
	Elections and Electoral Register	Operational	10	0.9	
	Cemeteries and Crematorium	Operational	10		
	Officers Expenses	Operational	5		
	Use of Council Vehicles	Operational	8	2.5	
	HMO licensing	Operational	10		
	Postal Services	Operational	10		
	Procurement (compliance with CPRs)	Operational	10		
			<b>145</b>	<b>12.2</b>	
Half EBC and half LDC resources	Arrears collection (across depts)	Operational	10		
	Estates Management	Operational	10	11.4	To draft - change of staff as auditor left
	Ethics	Operational	5		
	Customer Services	Operational	10		
			<b>35</b>	<b>0</b>	
Homes	Estate Management	Operational	10		
	Void Management	Operational	10	0.3	Asked to postpone until new software in place
	Aids and Adaptations	Operational	10		
			<b>30</b>	<b>0</b>	

		Planned days	Actual days	Reason for Variance
Contingency		40		
Special Investigations/advice		25	5.8	
Follow ups re audits carried out in previous year		46	23	
		<b>111</b>	<b>28.8</b>	

**PLAN TOTAL**

<b>560</b>	<b>90.4</b>
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**APPENDIX B****Reasons for original assurance levels given (below Well)**

N.B. The issues noted here may have been addressed since the original report was issued.

**Quarters -1**

<b>AUDIT REVIEW</b>	<b>ASSURANCE LEVEL</b>	<b>ISSUES NOTED</b>	<b>Level at follow up</b>
Safeguarding	Inadequate	<ul style="list-style-type: none"> <li>Recruitment policy does not reflect vetting processes detailed in the Safeguarding Policy</li> <li>"Safer recruitment" training required for certain staff.</li> <li>Inadequate records held to evidence checks being made.</li> <li>Not all relevant job descriptions explicitly mention Safeguarding responsibilities</li> <li>Retention and Disposal schedule is not clear on length of retention of documents.</li> </ul>	<p>Due October</p> <p>See main report 2.4</p>
Contracts Monitoring	Adequate	<ul style="list-style-type: none"> <li>A number of contracts in one area expired and no new contracts let.</li> <li>Formal meetings and ad hoc visits not being adequately recorded</li> <li>Contract details not held centrally</li> <li>No documented procedures for ensuring assets are returned at the end of a contract (e.g. keys).</li> </ul>	<p>Due September</p>

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NATIONAL FRAUD INITIATIVE	QUARTER ONE			QUARTER TWO			QUARTER THREE			QUARTER FOUR			YEAR TOTAL	
	Cases	Income	Savings	Cases	Income	Savings	Cases	Income	Savings	Cases	Income	Savings	Income	Savings
Number of cases open	1													
Number of cleared cases	46													
Number of errors identified	10													
Number of frauds identified	0													
Overpayments identified			5,114.52											5,114.52
<b>HOUSING BENEFIT MATCHING SERVICE</b>														
Number of open matches	13													
Number of closed matches	109													
Overpayments identified			23,843.52											23,843.52
Weekly incorrect benefit identified			3,707.20											3,707.20
<b>OTHER INVESTIGATIONS</b>														
Number of open investigations	80													
Number of closed investigations	69													
Overpayments identified														0.00
Weekly incorrect benefit identified														0.00
Value of ongoing CT increase per week			20771.84											20,771.84
Increase in Council Tax liability			904.80											904.80
Recovery of Council property	3													0.00
Housing Intervention														0.00
CTR Excess			4,841.17											4,841.17
CTR WIB			5,819.20											5,819.20
NNDR			2136										0.00	2136
Income from Adpen collection			1445.67										0.00	1445.67
Right To Buy interventions	4		319,000.00											319,000.00
<b>TOTALS</b>		<b>£0.00</b>	<b>£387,583.92</b>		<b>£0.00</b>	<b>£0.00</b>	<b>0</b>	<b>£0.00</b>	<b>£0.00</b>	<b>0</b>	<b>£0.00</b>	<b>£0.00</b>	<b>£0.00</b>	<b>£387,583.92</b>

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# EASTBOURNE BOROUGH COUNCIL

## ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2018

31 August 2018



# EXECUTIVE SUMMARY

## PURPOSE OF THE LETTER

This annual audit letter summarises the key issues arising from the work that we have carried out at Eastbourne Borough Council for the year ended 31 March 2018.

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.

## 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 (NAO's) Code of Audit Practice (the Code). Under the Code, we are required to report on:

- Our opinion 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 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**

## AUDIT CONCLUSIONS

### FINANCIAL STATEMENTS

We issued our unmodified opinion on the financial statements on 4 August 2018.

This was after the statutory deadline of 31 July 2018, primarily due to difficulties in the final stages of the audit in determining whether the Council needed to include its interest in a separate organisation, Greencoat House Limited, in its Group Accounts. This affected the timely completion of other areas of the audit.

We reported our detailed findings to the Audit and Governance Committee on 25 July 2018 and circulated an updated report on 3 August 2018.

Our audit identified two material misstatements in the primary financial statements, one relating to the netting-off of recharges within income and expenditure and the other relating to indexation on council dwellings. These were amended in the final financial statements and had no impact on the closing general fund balance.

We also reported an estimated audit difference of £401,000 in respect of the valuation of other land and buildings, which was not adjusted as it was not material.

### USE OF RESOURCES

We issued our unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 4 August 2018.

The Council's Medium Term Financial Strategy (MTFS) reflects reductions in Government funding and indicates average budget gaps of £1.1 million per annum over the four year period to 2020/21. The Council currently has a number of projects in place to generate savings or create additional revenue streams to fill these gaps, including a continuing Joint Transformation Programme (JTP) with Lewes District Council for the provision of frontline services and the organisation of back office functions.

We are satisfied that the Council has appropriate arrangements to continue to remain financially sustainable over the period of the MTFS.

# FINANCIAL STATEMENTS

## OPINION

We issued our unmodified opinion on the Council's financial statements on 4 August 2018.

This means we consider the financial statements:

- Give a true and fair view of the financial position and its income and expenditure for the year
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2017/18.

## SCOPE OF THE AUDIT

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 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.

The materiality for the Council's single entity financial statements was set at £2.1 million and the Group financial statements at £2.2 million. This was determined with reference to a benchmark of gross expenditure (of which it represents 2 per cent) which we consider to be one of the principal considerations for the Council in assessing financial performance.

## 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 the direction of the efforts of the audit team.

# FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Management override of controls	<p>Under auditing standards, there is a presumed risk of management override of controls as management is in a unique position to manipulate accounting records to prepare fraudulent financial statements.</p> <p>We responded to this risk by:</p> <ul style="list-style-type: none"> <li>• Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements</li> <li>• Reviewing the accounting estimates for bias and evaluating whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud</li> <li>• Obtaining an understanding of the business rationale for any significant transactions that are outside the normal course of business for the Council or that otherwise appear to be unusual.</li> </ul>	<p>No issues were identified by our review of the appropriateness of journal entries or other adjustments made to the financial statements.</p> <p>Our work on accounting estimates did not identify any evidence of management bias.</p> <p>We did not identify any significant transactions that were outside the normal course of business or that otherwise appeared unusual.</p>



# FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Revenue and expenditure recognition	<p>Under auditing standards there is a presumption that income recognition presents a fraud risk. We also considered the risk of misstatement through the manipulation of expenditure recognition.</p> <p>We responded to this risk by:</p> <ul style="list-style-type: none"> <li>• Testing an increased sample of fees and charges income to underlying documentation and confirming the existence and accuracy of transactions throughout the year</li> <li>• Testing a sample of fees and charges receipts either side of year end, to confirm that income had been recorded in the correct period and that all income that should have been recorded at year end had been</li> <li>• Testing a sample of expenditure either side of year end, to confirm that expenditure had been recorded in the correct period.</li> </ul>	<p>We did not identify any issues in our testing of revenue from fees and charges or receipts either side of year end.</p> <p>We did not identify any issues in our testing of expenditure either side of year end.</p>

## FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Valuation of land, buildings and investment property	<p>Due to the significant value of the Council's property assets, and the high degree of estimation uncertainty, there is a significant risk over the valuation of land, buildings and investment properties where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year end.</p> <p>We responded to this risk by:</p> <ul style="list-style-type: none"> <li>• Reviewing 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</li> <li>• Checking that the basis of valuation for assets valued in year was appropriate</li> <li>• Reviewing the reasonableness of assumptions used in the valuations against indices and price movements for classes of assets, and following up on valuation movements that appeared unusual against indices</li> <li>• Estimating the potential movement on classes of assets that were not revalued in year.</li> </ul>	<p>The Council engaged an external valuer to value its investment properties and carry out a year end desktop review on all other property categories.</p> <p>This included desktop valuations on £179.8 million of council dwellings based on open market value less a social housing discount, £57.5 million of specialised land and buildings held at depreciated replacement cost, and £18.6 million of other land and buildings based on existing use value.</p> <p>From our review of the instructions provided to the valuer and the valuer's reports, we were satisfied that we could rely on the management expert.</p> <p>We confirmed that the basis of valuation for assets valued in year was appropriate.</p> <p>From our review we were satisfied that property values, including properties not revalued in the year, were not materially misstated at year end, although our comparison to benchmarking indices indicated that other land and buildings valued on an existing use basis were stated at a value that was £401,000 below what we estimated as a reasonable range for the value.</p>

# FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Valuation of pension liability	<p>There is a risk the membership data and cash flows provided to the actuary at 31 March may not be correct, or the valuation uses inappropriate assumptions to value the liability.</p> <p>This is a significant risk due to the higher estimation uncertainty arising from the range of assumptions available to value the pension liability.</p> <p>We responded to this risk by:</p> <ul style="list-style-type: none"> <li>• Agreeing the disclosures to information provided by the actuary</li> <li>• Reviewing the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data</li> <li>• Obtaining assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary</li> <li>• Checking whether any significant changes in membership data had been communicated to the actuary.</li> </ul>	<p>The majority of actuarial assumptions remained consistent between the years, other than an increase in the discount rate that reduced the liability. However, the net pension liability increased overall by £2.18 million compared to the previous year, due to the transfer in of Eastbourne Homes Limited staff who TUPE'd over to the Council during the year.</p> <p>Our review of the initial actuarial report found that it incorrectly excluded this transfer. The Council obtained a revised report from the actuary that included the bulk transfer-in and management amended the financial statements for the revised valuation.</p> <p>Our review of assumptions used to estimate the value of the pension liability concluded that they were reasonable. We used the PwC consulting actuary report for reviewing the methodology of the actuary and assessing the reasonableness of the assumptions.</p> <p>We obtained assurance from the pension fund auditor over the controls at the administering authority for providing accurate information on scheme members for the 2016 triennial review and information for 2017/18.</p>

## FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Group Accounts	<p>There is a risk that income, expenditure, assets and liabilities in the Group Accounts may not be complete if the Council does not account for its share of material transactions in Greencoat House Limited (the holding company for Wealden and Eastbourne Lifeline Limited, Welbeing), and Aspiration Homes Limited.</p> <p>We responded to this risk by:</p> <ul style="list-style-type: none"> <li>• Reviewing the financial statements and management accounts of Welbeing and Aspiration Homes Limited and assessing whether management had fully considered the need to include its interest in these entities in its Group Accounts</li> <li>• Determining whether the Council had appropriately accounted for its interest in these entities, where material, taking account of the nature and underlying substance of the arrangements.</li> </ul>	<p>The Council previously held 49% of the voting rights and 21% of the non-voting rights in Greencoat House Limited. This was considered to be an associate, as the Council had significant influence but not control over these organisations. Historically the Council has not included them in its Group Accounts, as their transactions have not been material.</p> <p>During 2017/18, the Council purchased additional 'B' shares in Greencoat House Limited, which were subsequently converted into 'A' shares by Board resolution. This increased its shareholding to 49% of the voting rights and 26% of non-voting rights. However, as the Council's voting rights remained capped at 49%, it did not obtain control of the company through this acquisition.</p> <p>The management accounts of Welbeing indicate that the company had retained earnings of £2.086 million at 31 March 2018. The holding company had negligible retained earnings. Therefore, based on our materiality level of £2.2 million for the Group Accounts, we were satisfied that the Council's 75% interest in the two entities was not material at year end and they did not need to be included in the Group Accounts.</p> <p>Review of the financial statements of Aspiration Homes Limited indicated that the company did not have any material activity during 2017/18 and therefore it was acceptable that the Council did not consolidate its 50% interest in this company in its Group Accounts.</p>

# FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Recharges between the Council and Lewes District Council	<p>Under the JTP with Lewes District Council, the vast majority of Lewes' employees transferred onto the Council's payroll during 2016/17 whilst Legal Services remain within Lewes. There are recharging arrangements in place between the councils.</p> <p>Given that this is the first full year of these recharge arrangements, there is a risk over the accuracy of expenditure in the Comprehensive Income and Expenditure Statement (CIES).</p> <p>There is also a risk that redundancies resulting from the JTP may not be appropriately accounted for and disclosed in line with the Code of Practice on Local Authority Accounting 2017/18.</p> <p>We responded to this risk by:</p> <ul style="list-style-type: none"> <li>• Reviewing the reasonableness and accuracy of the recharge arrangements in place between the councils, seeking assurance that the Council's share of the costs is in line with approved recharge arrangements</li> <li>• Reviewing the completeness and accuracy of redundancy accruals and provisions and exit package disclosures.</li> </ul>	<p>We confirmed that there are appropriate arrangements in place to keep track of amounts that need to be recharged on monthly basis.</p> <p>For the service lines that were set up as shared service arrangements in phase one of the JTP, there are set percentages in place for the amounts recharged, which are between 40% and 50% per service.</p> <p>As further shared services and greater integration between Council staff developed during the year, the Council moved away from recharging Lewes District Council 100% of the hosted payroll cost and is now allocating payroll and some non-payroll costs between the councils on a shared service basis. Our testing confirmed that costs are split between 40% and 50%, dependent on the service line.</p> <p>The Deputy Chief Executive has delegated authority from both councils to determine the appropriate split of JTP costs and benefits.</p> <p>Our audit noted that £15 million of costs recharged to Lewes District Council were recorded on a gross basis within the CIES. However, as the Council is acting in an agent capacity in these joint operations, sharing the risks and rewards with Lewes District Council, it is more appropriate for each council to recognise its share of income and expenditure on a net basis. As a result, the financial statements were amended to net recharge income off against expenditure.</p> <p>Our audit of exit packages did not identify any issues.</p>

## USE OF RESOURCES

<b>CONCLUSION</b>	<p>We issued our unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 4 August 2018.</p> <p>This means we consider that the Council has proper arrangements to:</p> <ul style="list-style-type: none"> <li>• Ensure it took properly informed decisions</li> <li>• Deploy resources to achieve planned and sustainable outcomes for taxpayers and local people.</li> </ul>
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### SCOPE OF THE AUDIT

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources.

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 cumulative knowledge brought forward from previous audits, relevant findings from work undertaken in support of our opinion on the financial statements, reports from the Council including internal audit, information disclosed or available to support the annual governance statement, and information available from the risk registers and supporting arrangements.

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

# USE OF RESOURCES

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Financial sustainability	<p>The update to the MTFS to 2020/21 forecasts further reductions in Government core grant funding and annual inflationary and pay award pressures.</p> <p>The MTFS indicates budget gaps of £1.350 million in 2018/19, £775,000 in 2019/20, £1.478 million in 2020/21 and £765,000 in 2021/22. This means an average level of required savings of £1.1 million per annum over the four year period.</p> <p>The Council currently has a number of major development / transformational programmes in place to facilitate savings or create additional revenue streams in the medium term, to close the budget gaps.</p> <p>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.</p> <p>We responded to this risk by:</p> <ul style="list-style-type: none"> <li>Assessing the effectiveness of the Council’s arrangements for ensuring sustainable finances by reviewing current year outcomes and the Council’s reserves position</li> <li>Reviewing the assumptions used in the MTFS for investment costs and savings associated with its major development / transformational programmes</li> <li>Reviewing the Council’s arrangements for monitoring the progress of these programmes against budgeted savings targets.</li> </ul>	<p>The Council has a track record of delivering underspends in the General Fund. In 2017/18, the Council originally budgeted for a decrease in the general fund of £1.143 million, before transfers from earmarked reserves. There were variances in the year but the final position against the revised budget was an underspend of £434,000.</p> <p>The general fund balance at 31 March 2018 is £3.033 million, an increase of £373,000 from the prior year. General fund earmarked reserves decreased by £651,000, to £5.305 million, which was largely due to the use of capital reserves set aside for financing one-off capital schemes.</p> <p>The Council achieved £803,000 of its budgeted savings target of £981,000 for the year. A key component of this is savings from the JTP with Lewes District Council, although this under-achieved by £175,000 against the budget. The shortfall is being made up during 2018/19.</p> <p>The required savings for 2018/19 have been identified and relate largely to planned new income streams, the JTP and procurement savings.</p> <p>Other development programmes currently in place include the enhancement of the Devonshire Park complex, redevelopment of the Sovereign Centre Leisure facilities, joint housing investment partnership and joint venture for energy and sustainability.</p> <p>We are satisfied that the MTFS takes account of the investment costs associated with the Council’s major transformational and development projects. When these schemes are further established, management should be in a better place to forecast all of the associated savings and revenue contributions going forward.</p>

## APPENDIX

### REPORTS ISSUED

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

REPORT	DATE
2017/18 audit plan	February 2018
2017/18 audit completion report	July 2018

### FEES

AUDIT AREA	FINAL FEES £	PLANNED FEES £
Audit - PSAA scale fee	67,781	67,781
Audit - additional fee	TBC*	-
Housing benefits subsidy certification fee	11,310	11,310
<b>Total audit and certification fees</b>	<b>TBC</b>	<b>79,091</b>
<b>Fees for audit related services:</b>		
Pooling of housing capital receipts return	1,500	1,500
<b>Total fees</b>	<b>TBC</b>	<b>80,591</b>

\*We are in the process of discussing additional audit fees with management to cover overruns on the final accounts audit. Any additional fee would also be subject to approval by Public Sector Audit Appointments Limited.

We have not provided any other non-audit services.



FOR MORE INFORMATION:

**JANINE COMBRINCK**  
Engagement lead

T: +44 (0)20 7893 2631  
E: [janine.combrinck@bdo.co.uk](mailto:janine.combrinck@bdo.co.uk)

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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