



Accountants &
business advisers

Eastbourne Borough Council

Annual Governance Report

2011/12

September 2012

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Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any member or officer in their individual capacity or to any third party.

We accept no responsibility for any reliance that might be placed on reports and letters for any purpose by third parties, to whom it should not be shown without our prior written consent.

[Code of Audit Practice](#)

[Statement of Responsibilities](#)

1 Executive summary

- 1.1 The purpose of this report is to communicate to you the significant findings from the audit of Eastbourne Borough Council's financial statements and arrangements to secure economy, efficiency and effectiveness in the use of resources.
- 1.2 The Council's arrangements for preparing the annual financial statements remain effective. A summary of our findings and conclusions is set out below.

| Area of audit | Findings and conclusion |
|-------------------------------------|---|
| Financial statements | |
| Financial statements | <p>Amendments made to the financial statements</p> <p>Cash Flow Statement and the Movement in Reserves Statement</p> <p>In preparing the draft financial statements, the Council followed advice provided by its Treasury Management advisers in accounting for the Government's repayment of Eastbourne's debt for social housing and the associated premia. The advice was inconsistent with guidance published by Cipfa. Material amendments were made to the Cash Flow Statement and the note supporting the Movement in Reserves Statement. None of the amendments affected the reported surplus or the Council's useable reserves.</p> <p>Capital Adjustment Account</p> <p>Material amendments were made to the disclosures contained in the Capital Adjustment Account. The amendments involved the reclassification and restatement of balances involving changes in the valuation of Investment Properties and the amount of revenue Expenditure funded from Capital under Statute. Neither amendment affected the overall balance on the Account.</p> <p>We recommended a number of presentational and other disclosure amendments to ensure the financial statements complied more fully with the Cipfa Code of Practice and accounting standards.</p> <p>The detailed findings from our work are set out in section 3.</p> <p>Some areas of work are still outstanding at the time of drafting this report. Should these result in any significant issues, we will provide a verbal update to the Audit and Governance Committee.</p> <p>Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified true and fair opinion on the financial statements for the year ending 31 March 2012.</p> |
| Annual governance statement | <p>We are satisfied that the Annual Governance Statement is not inconsistent or misleading with other information we are aware of from our audit of the financial statements.</p> <p>However, the draft Annual Governance Statement presented for audit did not include any information about Eastbourne's wholly owned subsidiary. The statement has been amended accordingly.</p> |
| Whole of government accounts | <p>Our work to review the consistency of the whole of the government accounts return with the audited financial statements is in progress and a verbal update will be given to the Audit and Governance Committee at its meeting on 26 September.</p> |
| Internal controls | <p>We identified a weakness in the Council's arrangements for completing the cash/bank reconciliations at its four Theatres. The Council addressed the weakness in April 2012.</p> <p>The detailed findings from our work are set out in section 3.</p> |

| Area of audit | Findings and conclusion |
|-----------------------------------|---|
| Use of resources | |
| Value for money conclusion | We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012. The detailed findings from our work are set out in section 4. We will be issuing an unqualified value for money conclusion. |

Acknowledgement

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

2 Introduction

- 2.1 International Standards on Auditing (ISAs) (UK and Ireland) and the Code of Audit Practice require that we report to those responsible for financial governance and reporting (those charged with governance) the key findings of our audit prior to issuing our opinion on the financial statements and our value for money conclusion. This report summarises the results of our audit work completed to date in respect of the financial statements and arrangements to secure economy, efficiency and effectiveness in the use of resources for the year ended 31 March 2012.
- 2.2 Our report is presented to the Audit and Governance Committee in accordance with the provisions of ISA (UK & Ireland) 260 *Communication with those charged with governance*, ISA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance* and Management, and the Audit Commission's *Code of Audit Practice*.
- 2.3 The contents of this report have been discussed and agreed with the Chief Finance Officer. We have reported verbally to management other non-significant findings from our audit.

Findings

- 2.4 Recommendations in response to the key findings identified by our audit of the financial statements and use of resources work are provided in the action plan at Appendix A. These recommendations have been discussed with appropriate officers and their responses are included.
- 2.5 We would highlight that in this report we do not provide a comprehensive statement of all weaknesses that may exist in the financial and operational systems, but only those matters which have come to our attention as a result of the audit procedures performed. We have not restated weaknesses already reported by Internal Audit.

Fee outturn

- 2.6 The Audit Commission's *Standing Guidance for Auditors* requires us to report the outturn fee position for the year against the budgeted fee included within your Audit Plan. The table below sets out this analysis and confirms no amendment was necessary to the audit fee.

| Work area | Planned Fee £ | Actual Fee £ |
|--|------------------|-----------------|
| Code audit | | |
| Financial statements | 102,000 | 102,000 |
| Use of resources audit to support the value for money conclusion | 46,200 | 46,200 |
| Local elector questions (work completed November 2011) | 2,000 | 2,000 |
| Review of solar panels project accounting | 2,500 | 2,500 |
| Review of investment in local company accounting | 3,000 | 3,000 |
| Total Code audit fee | £155,700 | £155,700 |
| Audit of claims and returns (estimate) | £45,000 | £45,000 |

- 2.7 A number of the grant claim audits are currently in progress or do not require certification until later in the year and therefore the actual fee remains an estimate of the expected final

position. The final position will be reported in our grants report to be issued on completion of this work.

Independence

- 2.8 We confirm that we are not aware of any relationships that may bear on our independence and objectivity as auditors and that our independence declaration, included in the Audit Plan for 2011/12, has remained valid throughout the period of the audit.

3 Financial statements

- 3.1 We are required to provide an opinion on whether your financial statements give a true and fair view of your financial position and income and expenditure and whether they have been prepared properly, in accordance with appropriate legislation and relevant accounting guidance. To do this we carry out risk based procedures designed to obtain sufficient appropriate audit evidence to determine with reasonable confidence whether the financial statements are free from material misstatement and evaluate the overall presentation.
- 3.2 In carrying out our work we determine and apply a level of materiality. Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole, or individual elements of the financial statements as appropriate. Consequently, the audit cannot be relied upon to identify *all* risks or potential and actual misstatements.
- 3.3 We consider misstatements of less than £41,000 to be trivial to the Council's financial statements and the Group financial statements, unless the misstatement is indicative of fraud, and have not reported them. This is the updated amount and compares to the £32,000 reported in the audit plan in January 2012.

Reporting to those charged with governance

- 3.4 We have set out below those matters relevant to our audit that, under auditing standards, require reporting to those charged with governance or which we believe should be reported to you to assist you with your governance duties.

Significant risks of material misstatement

- 3.5 We reported our risk assessment, which brought to your attention areas that require additional or special audit consideration and are considered a significant audit risk, in the 2011/12 Audit Plan issued in January 2012. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the Council's draft financial statements, and concluded that there are no changes to the significant risks previously reported.
- 3.6 Our audit approach was designed to address these risks and any relevant issues arising have been set out in the remainder of this report.

Management override and accounting estimates

- 3.7 We are required to consider management override of controls to be a significant risk in all audit engagements under auditing standards as discussed in our 2011/12 Audit Plan. Our review of management journals and accounting estimates did not indicate any material management bias or override of controls in preparing the financial statements.

Revenue Recognition

- 3.8 Auditing standards presume that there are risks of fraud in revenue recognition. These risks may arise from the use of inappropriate accounting policies or failure to apply the Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue.
- 3.9 Our review of the use of stated accounting policies and consideration of the use of estimates in the calculation of revenue has not indicated any risk of fraud in revenue recognition.

Housing Revenue Account (HRA) settlement

- 3.10 In preparation for the commencement of the self-financing of the Housing Revenue Account from 1 April 2012, the Government's Settlement Payments Determination 2012 specified the Government would repay debt (£30.482 million) and the associated premia on the debt (£8.5

million) on the Council's social housing. Our review of the draft financial statements found the Council had followed advice provided by its Treasury Management advisers but that aspects of the advice were inconsistent with Cipfa guidance. The accounts were amended (see paragraph 3.37).

Investment in solar panels - Council Housing and other Council buildings

- 3.11 We reviewed the accounting treatment proposed for the Council's capital investment and future capital costs (including depreciation), and the future expenditure and income arising from the installation of solar panels on council housing and Council buildings. We are satisfied the transactions are appropriately disclosed in the financial statements.

Accounting practices

Financial statements preparation

- 3.12 The requirement for Members to approve the draft financial statements by 30 June was removed by the Accounts and Audit Regulations 2011, however these regulations introduced the requirement for the Chief Financial Officer to sign and present the financial statements for audit by 30 June. The financial statements were signed and presented for audit on 29 June 2012.
- 3.13 As part of our planning for the audit, we prepared a detailed document request which outlined the information that we would require to complete the audit. The Council provided us with files of comprehensive working papers on 2 July 2012, in line with the agreed timetable.
- 3.14 Our detailed audit work identified the Council had not fully followed the Cipfa Code of Practice and other Government guidance in disclosing certain transactions. Officers amended the financial statements in the light of our recommendations. The Council's overall arrangements for preparing and publishing the financial statements remain effective.

Accounting policies

- 3.15 The following changes have been introduced by the *2011 Code of Practice on Local Authority Accounting in the United Kingdom* (the 'Code'), resulting in the following changes in accounting practice relevant to Eastbourne:
- the adoption of FRS30 *Heritage Assets*, requiring that heritage assets are carried at valuation, with comprehensive disclosure note requirements
 - amendments to the related party disclosures required in respect of central government departments, government agencies, NHS bodies and other local authorities to clarify the nature of those related party relationships and simplify the information disclosed.
 - new disclosure requirements for exit packages to disclose the number and cost of exit packages agreed in the year
- 3.16 The Council has generally dealt with the implementation of these changes in an appropriate manner and assisted the audit in the review of the changes required. An amendment was required to the accounting policy note to reflect the revaluation process for Heritage Assets (see paragraph 3.26).

Accounting estimates

Estimated pension liability

- 3.17 The net pension liability of the Council comprises its share of the market value of assets held in the East Sussex County Pension Fund and the estimated future liability to pay pensions for its current, deferred and retired members of the pension scheme.

- 3.18 An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. Their estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions about inflation.
- 3.19 Management has agreed the assumptions made by the actuary to support the estimate and these are included in the financial statements. We have requested written representations from the Council to confirm that the assumptions applied by the actuary are reasonable and consistent with its knowledge of the business of the Council.
- 3.20 We are satisfied that the actuary is suitably independent of the Council, objective and experienced in undertaking this work. Our review of the assumptions applied in estimating the pension liability suggest that these are not significantly different from those being applied by the actuaries of other local authorities.

Valuation of fixed assets

- 3.21 Land and buildings are required to be carried at fair value which is either existing use value, depreciated replacement cost for specialised properties or open market value. The Council revalues land and buildings where material changes in the value have occurred in the year or as a minimum every five years as part of a rolling programme, which the Code accepts as accepted practice.
- 3.22 Valuation reports for land and buildings and useful economic lives are prepared by the Council's internal valuer, who has specialist knowledge and experience of valuing Eastbourne's assets, having regard to local prices and the public sector. Management accepts the valuation information provided by the expert and valuation adjustments are made to the financial statements where required.
- 3.23 We are satisfied the internal valuer is suitably objective and experienced in undertaking this work. Our review of the valuations provided, when compared to other price index information available, and useful economic lives allocated to buildings and significant components showed that they are not unreasonable.
- 3.24 The Code requires that management reviews the residual value, useful life and depreciation method of all classes of assets at the year end to confirm that annual depreciation charges properly reflect the consumption of those assets. Where these differ significantly from previous estimates the impact on the annual and future depreciation charges should be disclosed in the financial statements.
- 3.25 Management confirmed it has undertaken a review of useful lives, depreciation methods and residual values and that the existing assumptions remain appropriate, except for the following matter.

Valuation of Heritage Assets

- 3.26 The draft financial statements correctly presented Heritage Assets (total value £12.2 million) as a separate non-current asset in the balance sheet in line with FRS30. However, we found Heritage Assets have not been reviewed by a specialist valuer since 1992, with the Council updating the valuation each year by the retail price index for insurance purposes. The Council plans to obtain a specialist valuation of its Heritage Assets as at 1 April 2012 to inform the closure of the 2012/13 accounts.
- 3.27 We have obtained a management representation on the valuation of the Heritage Assets disclosed in the financial statements.

Recoverability of debtor balances

- 3.28 The Council calculates the annual allowance for the impairment of debtors based on its assessment of recoverability. Management reviews all debts, and specific amounts considered irrecoverable are included in the assessed impairment amount at year end. Most

categories of the Council's debtors are not subject to substantial fluctuation and management applied percentages to the aged profile of these debts, based on past experience and future expectations of recoverability, to estimate the allowance for doubtful debts.

Payments in advance

- 3.29 The Council's closedown procedures require officers to estimate amounts paid before 31 March as payment in advance as appropriate. We found the procedure is inconsistently applied. We are satisfied the effect is trivial as at 31 March 2012. A recommendation has been made to remind officers to apply the Council's policy consistently.

Disclosures

- 3.30 We identified a number of departures from the expected presentation of the financial statements or where notes and other disclosures had not been presented in accordance with the Code or were inconsistent. None of the amendments affect the overall financial position reported, as summarised below:

- disclosure of the impact of the transfer of the concessionary fares service to East Sussex County Council on the face of the Comprehensive Income and Expenditure Statement (Cipfa provided late guidance on this matter)
- the '*critical judgements in applying accounting policies disclosure*' (note 4) was updated to provide information about the status of the Wealden and Eastbourne Lifeline Company; the Council's Investment Properties and other information about the Council's Provisions
- the financial instruments disclosure (note 9) has been amended to fully comply with IAS 39 and exclude non-contractual transactions (such as PAYE and Council Tax amounts)
- the Trading Operations disclosure (note 16) was amended to provide information about the impact of an upward revaluation of Investment Property assets in the year. A further amendment was required to the disclosures made in the Capital Adjustment Account for such transactions (£2.5 million upward revaluation and £700,000 impairment)
- the Capital Commitments disclosure (note 21.5) was amended from £1,849,000 to £1,422,000 to include only those transactions the Council is contractually committed to
- the Post Employment benefits disclosure (note 34.6) was updated to include information about the expected return on plan assets
- a number of other minor presentational, casting and prior year comparative amounts have been amended.

- 3.31 We have also suggested a number of areas where the financial statements could be improved in terms of the scope and extent of information provided that have been accepted by management.

Audit of Group Financial Statements disclosures

Prior period adjustment

- 3.32 The 2010/11 Group Accounts contained two material errors. Neither error affected the overall surplus nor the level of reserves reported. One error arose because the management fee paid by the Council to Eastbourne Homes Limited (£5.6 million) was not removed from the Group Comprehensive Income and Expenditure Statement (CIES) on consolidation. A second error occurred because the exceptional item arising following the reduction in the pension fund deficit (£10.6 million) was also included as a non-distributed cost in the CIES. The items affected the gross income and gross expenditure amounts and did not affect the overall surplus reported as at 31 March 2011 or 31 March 2012.

- 3.33 Management restated the Group CIES as at 31 March 2011 but did not fully comply with the relevant accounting standard (IAS 8) in disclosing the transactions involved. The financial statements were amended to include the full disclosure required by IAS 8.

Group Annual Governance Statement

- 3.34 The Annual Governance Statement published by the Council should include matters relevant to the transactions of its Group. The statement was updated to include governance matters arising from the Council's wholly owned subsidiary (Eastbourne Homes Limited).

Uncorrected misstatements

- 3.35 The Council corrected the misstatements identified by our work.

Misstatements corrected by management

- 3.36 We identified a number of departures from the expected presentation of the financial statements or where notes and other disclosures had not been presented in accordance with the guidance in the Code of Practice. These have been amended by the Council and include the following.

Adjustments between accounting basis and funding basis under regulations (note 7)

Housing Revenue Account (HRA) Settlement of Debt Transactions

- 3.37 Adjustments are made between the accounting basis of transactions contained in the annual financial statements accounts and the funding basis of such transactions to reflect the special status of local authorities as tax-raising bodies. Local Authority accounts must therefore follow the rules specified in the Cipfa Code of Practice in relation to the income and expenses reported. In many instances, these rules differ substantially from proper accounting practices (in the treatment of depreciation and capital expenditure for instance). Appropriate adjustments are therefore made in the Movement in Reserves Statement,
- 3.38 Our audit of note 7 identified the presentation did not full comply with the Cipfa Code of Practice in relation to government grants and contributions and the capital receipts reserve following the Government's settlement of the Council's Housing Revenue Account debt (see also paragraph 3.10). The following amendments involving the Capital Receipts Reserve and the Capital Grants Unapplied Reserve were made to note 7 as at 31 March 2012, as shown overleaf.

| Capital Receipts Reserve | | Capital Grants and Contributions | |
|---|--------------|----------------------------------|--------------|
| Draft £000 | Amended £000 | Draft £000 | Amended £000 |
| Government Grant received on HRA self-financing settlement used to repay long term borrowing credited to the CIES | | | |
| 0 | 30,482 | 30,482 | 0 |
| Government Grant received on HRA self financing settlement used to repay long term borrowing | | | |
| 0 | (30,482) | 0 | 0 |
| 0 | (8,542) | 0 | 0 |
| Capital Receipts applied to finance payment of premia due on early debt repayment: | | | |
| 0 | 8,542 | 0 | 0 |
| Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements: | | | |
| 0 | 0 | 8,542 | 0 |

Capital Adjustment Account

**Revaluation losses Property, Plant and Equipment from understated by £1.7 million
Movements in the market value of Investment Properties credited to the
Comprehensive Income and Expenditure Statement understated by £1.7 million**

3.39 The Capital Adjustment Account discloses the accumulated gains and losses on Investment Properties. The draft financial statements did not correctly disclose the change in the market value of Investment Properties in the year. The increase in value (£1,753,000) incorrectly reduced the value of the losses reported for Property Plant and Equipment in the year and should have disclosed the amount as an increase in the market value of Investment Properties credited to the Comprehensive Income and Expenditure Statement. The Capital Adjustment Account was amended to:

- increase the revaluation losses on Property, Plant and Equipment from £29,355,000 to £31,088,000
- increase the movements in the market value of Investment Properties credited to the Comprehensive Income and Expenditure Statement from nil to £1,753,000

**Revenue Expenditure funded from capital under statute overstated by £976,000
Capital expenditure charged against the General Fund and HRA balances understated by £976,000**

3.40 The draft financial statements disclosed the amount of Revenue Expenditure funded from capital under statute on a net basis in the Capital Adjustment Account. The amount should have been disclosed on a gross basis to reflect the amount of expenditure and that it was financed from revenue resources. The Capital Adjustment Account was amended to:

- reduce the *Revenue Expenditure funded from capital under statute* amount from £7,000 to (£976,000)
- increase the *Capital expenditure charged against the General Fund and HRA balances* amount from nil to £976,000.

- 3.41 The amendments to the Capital Adjustment Account are technical in nature and do not affect the surplus reported by the Council or the general fund balance as at 31 March 2012.

Other matters

- 3.42 We are required to communicate 'audit matters of governance interest that arise from the audit of the financial statements' to you which includes:
- significant deficiencies in internal control identified during the audit
 - matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. issues relating to fraud, compliance with laws and regulations, subsequent events etc.)
 - other audit matters of governance interest.

Significant deficiency in internal control

Theatre Cash and Bank Reconciliations ('databox' reconciliations)

- 3.43 Each month a cash reconciliation is completed between the 'e-financials' general ledger and the 'databox' cash receipting system operated by Eastbourne's (four) Theatres. The reconciliation involves matching the cash receivable identified by each Theatre's 'databox' system to the cash included in the Council's bank account and general ledger. We reported weaknesses in arrangements for completing the reconciliations (in that not all reconciliations were completed monthly or transactions fully reconciled) to management in March 2012.
- 3.44 Internal Audit completed a full review of all reconciliations completed in the year and reviewed those balances where reconciliations had not been completed in month. Some trivial differences were reported as at 31 March 2012 at two Theatres (the amounts involved were £2,400 and £6,000). Management has addressed the situation by introducing new procedures from 1 April 2012.
- 3.45 Internal audit reported no evidence of fraud in completing its review.

Annual Governance Statement

- 3.46 We have reviewed the Annual Governance Statement and are satisfied that it is not inconsistent or misleading with the other information we are aware of from our audit of the financial statements. The statement was updated to include information about the Council's wholly owned subsidiary (Eastbourne Homes Limited).

Whole of government accounts

- 3.47 Our work to review the consistency of the whole of government accounts return with the audited financial statements is in progress and a verbal update will be given at the Audit and Governance Committee on the 26 September.

Foreword to the Statement of Accounts

- 3.48 We read the Foreword to the Statement of Accounts although this is not part of our true and fair opinion on the financial statements. The Foreword has been developed over the last 12 months and contains comprehensive information about the Council's finances and its operating performance. The Foreword includes the content specified by the Code.

Written representations

- 3.49 We are required by ISAs to obtain written confirmation from you of certain representations that have been made during the course of our audit. The draft letter of representation has been attached as Appendix C.
- 3.50 We do not anticipate any changes being required before providing our opinion on the financial statements.

Audit report

- 3.51 Subject to satisfactory resolution of the following outstanding issues and final clearance of the audit, we anticipate issuing an unqualified audit opinion on the financial statements:
- final review of the financial statements
 - clearance of final review queries.
- 3.52 We will provide a verbal update on these outstanding issues at the Audit and Governance Committee.

4 Use of resources

- 4.1 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).
- 4.2 In accordance with our Audit Plan, our principal work in arriving at our value for money conclusion was comparing the Council's performance against characteristics specified by the Audit Commission in its guidance to auditors. The focus of our work in 2011/12 involved reviewing the financial resilience of the organisation and its arrangements for securing economy, efficiency and effectiveness in the use of resources.

Financial resilience

- 4.3 Our financial resilience work has considered the Council's arrangements for financial governance, financial planning and financial control, including improvements in arrangements over the prior year.
- 4.4 Our 2010/11 assessment highlighted that the Council's financial planning and delivery arrangements were effective and that the published annual budget and medium term financial plan were soundly based. We also highlighted uncertainties over future financial settlements and the additional costs the Council expected from the localisation of council tax and changes to the benefits systems, representing significant risks and requiring careful management.
- 4.5 To assist in addressing these risks and uncertainties, and to strengthen the overall financial position, the Council has progressed the "Drive" efficiency programme and the significant corporate projects within it. It has also invested in infrastructure projects and developed strategic partnerships designed to improve services and reduce costs while also reducing reliance on Government grants and the annual council tax over the longer term. The key issues arising from our review of financial resilience are summarised below.
- 4.6 The Council's financial governance arrangements remain effective. The annual budget and medium term financial planning processes are comprehensive and are led by the Corporate Management Team. Service managers prepare comprehensive, integrated service and financial plans, utilising available cost and other benchmarking information.
- 4.7 The Council managed its finances well in the year. Clear leadership has been shown on financial planning matters through the work of the Cabinet and the Corporate Management Team to prepare for, and then respond to, the Government's Comprehensive Spending Reviews and known financial settlements. Effective scenario planning has identified the reduction in expenditure and the level of efficiency savings the Council requires over the medium term (to 2015).
- 4.8 The Council commenced significant projects in the year, designed to increase income streams over the longer term. For instance, the 'Solarbourne' project aims to secure income of about £250,000 per annum from the Government's 'feed-in' tariff scheme following the installation of solar panels on Eastbourne's housing stock and Council buildings. The project also meets the Council's aims for reducing fuel poverty by providing lower cost electricity to those Council tenants involved in the scheme. The capital investment in the scheme was kept under review and was reduced to £8.3 million following the Government's decision to reduce the amount of tariff available. The Council reviewed the costs and expected financial benefits of the scheme before deciding to proceed with the amended programme, concluding it remained viable.
- 4.9 As at 31 March 2012, the Council achieved a surplus of £127,000 and reduced the general fund balance by about £340,000 less than the original budget. The general fund balance amounts to £4.6 million and is considered sufficient by the Council based on the Chief Finance Officer's risk assessment and recommendations. The Housing Revenue Account reported a surplus of £251,000 and the balance amounted to £2 million as at 31 March 2012.

The Council considers the balance to be adequate based on its future spending plans. Following the Government's decision to settle the outstanding debt related to the Council's housing stock, Eastbourne is exploring options for its future social housing provision.

- 4.10 The 'Drive' efficiency programme continues to provide the overarching project delivery framework and has secured savings of about £1.3 million in each of the last three years. Further savings of £4 million are expected by 31 March 2015. The 2012/13 budget includes a programme of identified efficiency savings of about £900,000 with a further £300,000 of additional income expected from certain services. The key corporate projects managed under the 'Drive' framework remain the 'Agile' working programme and the sustainable service delivery strategy. Both initiatives continue to underpinned by the effective service and financial planning process which was revised and updated in the lead up to publishing the Council's 'future operating model' delivery framework in April 2012. The model is due to be implemented across the organisation over the next three years, reconfiguring services and staff structures using new technologies and business processes. The Council has identified the necessary financial and human resources to deliver the future operating model.
- 4.11 The annual budget process and the medium term financial planning process (to 31 March 2015) are overseen by the Corporate Management Team. The Council's service departments produce integrated plans based on corporate assumptions about the required savings and efficiencies supported by options appraisal and scenario planning. All service plans reflect the Council's priorities and objectives and consistently reflect the annual budget and medium term financial positions and options for service delivery. Savings and efficiency targets are clearly defined with options for growth in services presented for Members' review.

Challenging economy, efficiency and effectiveness

- 4.12 Our review of economy, efficiency and effectiveness has considered the Council's arrangements for prioritising resources and improving efficiency and productivity.
- 4.13 Our 2010/11 use of resources work highlighted that the Council continued to deliver its priorities within agreed resources. Through the 'Covalent' performance management system, the Council publishes its performance towards agreed targets transparently, identifying appropriate action where performance is out of line with plans. The performance management system has developed further over the last 12 months as significant projects have been delivered and new initiatives developed (such as the future operating model).
- 4.14 The Council continues to work towards its corporate plan objectives for the period 2010 to 2015. Consultation with local people and other stakeholders in December 2011 confirmed the Council's three priority areas remained the right ones and the plan was refreshed for the 2012/13 year. Performance towards key projects underpinning achievement of the Council's four cross cutting themes (a Prosperous Economy; Quality Environment; Thriving Communities and Sustainable Performance) is also published. The integrated approach enables the Council and local people to consider Eastbourne's progress towards the various actions stated throughout the year and to hold it to account where projects are not progressing in accordance with plans.
- 4.15 The 2012 staff survey confirmed the perception of staff that the 'Agile' working programme had improved their work/life balance and that services to customers were improving. It also confirmed a more transparent approach to performance management and staff appraisals and more consistent communication of developments. The approach has continued with the early communication of the expected impact of the 'future operating model' for the organisation in 2012/13 and beyond.
- 4.16 The Council agreed the Local Government Association should undertake a 'peer challenge' in June 2012 to provide an external view of the organisation and to assess its plans to meet identified challenges and opportunities for the area. Specific feedback was sought on the Council's ambitions for economic development and regeneration within the borough, including 'brand building' and the further action the Council should take to ensure sustainable service delivery in the longer-term. The review team recognised the significant

improvements the Council has made in a relatively short period of time to stabilise its finances and provide a sound platform for delivering its future priorities. It also highlighted the improvements made in the Council's arrangements for managing performance and ensuring its priorities are clearly articulated and consistently understood across the organisation and among strategic partners.

- 4.17 The Council accepted the review team's conclusions and is now implementing the key recommendations for developing and implementing an Economic Development Strategy involving key stakeholders and further improving communication and delivering the Eastbourne 'brand'. The team also concluded the Council key strategies should be updated to support achievement of the recommendations made.
- 4.18 As at 31 March 2012, almost all Council targets were achieved with some notable sustaining of performance and other improvements. For instance:
- sickness absence (was maintained at the low levels (5.59 days) reported in 2010/11 with positive staff satisfaction levels achieved at a time of change and uncertainty at the national level for all public sector staff (82 per cent of Eastbourne staff are satisfied with their working environment based on a 50 per cent return rate for the 2012 staff survey)
 - key income targets (for council tax and business rates) were met and prior period performance sustained
 - waste and recycling targets were achieved, improving performance compared to the prior period
 - crime reduction targets were met
 - the time taken to process Housing and Council Tax Benefit new claims and change events was 9.8 days, surpassing the target of 14 days by a considerable margin.
- 4.19 The Council is working with its partners and other Councils to establish a more strategic approach to service delivery. A partnership with three other Councils in East Sussex is now in place to secure the procurement of waste collection services across four Districts. Resources are being pooled to maximise the procurement savings available to all Councils involved.
- 4.20 The Council also plans (in 2012/13) to assist first time buyers in entering the housing market through its partnership with a national bank (the 'Local Authority Mortgage Scheme'). It has agreed to provide guarantees amounting to £1 million for local people eligible for the scheme and who meet the lending criteria specified by the bank.
- 4.21 The Council is aware of its relative performance in terms of cost and activity and where this is out line with expectations. In terms of the national value for money information published by the Audit Commission for the 2010/11 year, the Council reports only a small number of 'outlier' costs and performance. The Council understands those services where costs or performance are out of line with comparable organisations. For instance, the costs of aspects of the planning service and housing services (for certain homeless people) are higher than statistical neighbours and the Council has taken action to address this.
- 4.22 Partnership working with other public sector organisations and the voluntary and community sector underpins the Council's approach to value for money. The Council Plan contains clear commitments to partnership working in providing services to local people. The Council's priorities for improving the economic performance of the area ensures the private sector and Government departments are consulted on economic development proposals (such as the proposed regeneration of the town centre and the Sovereign Harbour site).
- 4.23 The Council continues to work effectively with other local authorities, as evidenced by the progression of strategic partnerships for waste amend other jointly provided services and through the effective work of the Crime Reduction Partnership in reducing crime (as highlighted above)

Audit report (value for money conclusion)

- 4.24 Our value for money conclusion is based on considering our overall risk assessment, focusing on the two criteria set by the Audit Commission, and the results of risk based audit work, as well as consideration of the processes underpinning your review of the effectiveness of your controls as described in your Annual Governance Statement.
- 4.25 We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2012. We propose issuing an unqualified value for money conclusion..

Appendix A: Action Plan

| Conclusions from work | Recommendations | Management responses | Responsibility | Timing |
|---|--|--|---|--------------------|
| Financial statements | | | | |
| <p>Fixed Assets - Heritage Assets</p> <p>The insurance value of Heritage Assets is uplifted each year using an index. A formal revaluation of Heritage Assets has not been carried out since 1992.</p> | <p>The Council is planning to obtain a specialist valuation of its Heritage Assets as at 1 April 2012 to inform the closure of the 2012/13 accounts.</p> | <p>Work has commenced to instruct the specialist valuer.</p> | <p>Head of Financial Management Services</p> | <p>Implemented</p> |
| <p>Payments in advance</p> <p>The Council's closedown procedures require officers to estimate amounts paid before 31 March as payment in advance as appropriate. We found the procedure is inconsistently applied. We are satisfied the effect of the weakness is trivial as at 31 March 2012.</p> | <p>The Council's policy for identifying payments in advance should be implemented consistently.</p> | <p>Accounting policy to be reviewed.</p> | <p>Chief Finance Officer</p> | <p>March 2013</p> |
| Internal controls | | | | |
| <p>Theatre Cash and Bank Reconciliations</p> <p>The reconciliation between the cash receipting systems maintained at the Council's Theatres ('databox') and the Council's bank accounts are inconsistently applied.</p> <p>Some trivial differences were reported as at 31 March 2012 at two Theatres (the amounts involved were £2,400 and £6,000). Management has addressed the situation by introducing new procedures from 1 April 2012.</p> | <p>The Council should ensure the enhanced procedures established on 1 April 2012 are followed.</p> | <p>Agreed. Procedure implemented and will be followed up by Internal Audit</p> | <p>Head of Financial Management Services Internal Audit Manager</p> | <p>2012/13</p> |

Appendix B: Uncorrected misstatements

There are no uncorrected misstatements:

Appendix C: Draft letter of representation

Representations for the preparation of the Statement of Accounts (as set out below), which includes the financial statements, will be sought from the Chief Finance Officer (as the Responsible Financial Officer) and from Members on behalf of the Council in relation to its responsibility to approve the Statement of Accounts and the Annual Governance Statement.

PKF (UK) LLP
Farringdon Place
20 Farringdon Road
London
EC1M 3AP

26 September 2012

Dear Sirs

Financial statements of Eastbourne Borough Council for the year ended 31 March 2012

This representation letter is provided in connection with your audit of the financial statements of Eastbourne Borough Council and the Group for the year ended 31 March 2012 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view, have been properly prepared in accordance with the relevant financial reporting framework and have been prepared in accordance with the requirements of applicable law.

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of directors and management of the Council, the following representations given to you in connection with your audit of the Council's financial statements:

FINANCIAL STATEMENTS

Responsibility for the financial statements

I acknowledge as the Chief Finance Officer and s151 Officer my responsibilities for the Statement of Accounts, which include the financial statements, and for ensuring that these are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

Accounting policies

I confirm that the selection and application of the accounting policies used in the preparation of the financial statements are appropriate.

Significant assumptions

The following significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable:

Pension fund assumptions

I 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 my knowledge of the business. These assumptions include:

- | | |
|--|-------|
| • Rate of inflation (RPI/CPI) | 2.5% |
| • Rate of increase in salaries | 4.8% |
| • Rate of increase in pensions | 5.9% |
| • Rate for discounting scheme liabilities | 4.8% |
| • Take up option to convert the annual pension into retirement grant | 50.0% |

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

Pension fund investments fair values

Where required, the value at which assets and liabilities are recorded in the pension fund net assets statement is, in my opinion, the market value. I am responsible for the reasonableness of any significant assumptions underlying the valuation. Unquoted, private equity and infrastructure investments held by fund managers within funds are valued at fair value by the fund managers. Where there is no active market where prices can be readily observed for these funds, I am satisfied that appropriate assumptions have been applied by the fund managers when valuing the share of the fund held by the pension fund.

Valuation of housing stock

The useful economic lives of the housing stock and its constituent components, used in the valuation of the housing stock and the calculation of the depreciation charge for the year are consistent with those advised to me by the expert valuer appointed by the Council to provide this information.

Carrying value of land and buildings

I am satisfied that the carrying value of land and buildings is materially consistent with the fair value at 31 March 2012. Where necessary, an impairment has been made and no further adjustment is required to any other assets that were revalued as part of the five-year rolling programme in previous years.

Heritage Assets

I confirm that the significant assumptions made in valuing Heritage Assets disclosed in the financial statements, including their measured at fair value if applicable, are reasonable. Specifically, the judgements used in assessing the value of the assets which are based on the last full valuation completed in 1992 which has been uplifted annually by RPI are reasonable.

Fair value measurements and disclosures

I confirm that the significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable. Specifically, the judgements in assessing the fair value of the outstanding loans to the Public Works Loans Board (PWLB) are reasonable and in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Componentisation

I confirm that, in respect of the PPE assets reviewed for possible componentisation within the Fixed Asset Register, I have reviewed the impact on the depreciation charge arising from the application of differing useful economic live to the separate components and am satisfied that it is not materially different from applying a single useful economic life to the entire asset value.

Contractual Disputes

As with most local authorities, the Council occasionally finds itself in dispute with suppliers of goods and services. I am not aware of any liabilities arising from such disputes.

Comparative information

I confirm that, in respect of the restatement to implement the Heritage Assets accounting policy changes the adjustments relate to a change in accounting policy as we believe that the new accounting policy is more appropriate, and accordingly to ensure the consistency of accounting treatment between periods it is necessary to restate the current and corresponding periods on the basis of the new policy.

INFORMATION PROVIDED**Completeness of information**

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 committee meetings (held during the year and up to the date of this letter) have been made available to you.

Internal control

I acknowledge my responsibility for the design, implementation and maintenance of internal control relevant to the preparation and presentation of the Council and group financial statements that are free from misstatement, whether arising from fraud or error.

Fraud

I have disclosed to you the results of my assessment of the risk that the Council and group financial statements could be materially misstated as a result of fraud.

I have disclosed to you my knowledge of fraud or suspected fraud affecting the Council or the group and of any allegations of fraud or suspected fraud affecting the financial statements communicated to me by employees, former employees, councillors, regulators or others.

I am not aware of any fraud or suspected fraud affecting the financial statements, nor have any allegations of fraud or suspected fraud affecting the financial statements been communicated to me by employees, former employees, councillors, regulators or others.

Compliance with law and regulations

I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations, whose effects should be considered when preparing the financial statements of the Council and the group.

I am not aware of any possible or actual instances of non-compliance with laws or regulations whose effects should be considered when preparing financial statements of the Council and the group.

The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

Transactions with related parties

I confirm that I have put in place appropriate arrangements to identify related party transactions.

I am satisfied that the disclosure in the financial statements of related party transactions is appropriate and complete and contains all the elements necessary for an understanding of the financial statements.

Contingent liabilities

I am not aware of any significant contingent liabilities, including pending claims, proceedings or litigation involving the Council.

Uncorrected misstatements

As highlighted in your governance report, there are no uncorrected misstatements.

Subsequent events

There have been no events since the balance sheet date which necessitate revision of the figures included in the Council and group financial statements or inclusion of a note thereto. Should any material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Yours faithfully

Alan Osborne
Chief Finance Officer

Representations of the Council

We confirm to the best of our knowledge and belief, and having made appropriate enquiries of other officers and members of the Council, the following representations given to you in connection with your audit of the Council and group's financial statements.

Responsibility for the financial statements

We acknowledge our responsibilities to make arrangements for the proper administration of the Council's financial affairs and to approve the Statement of Accounts, which includes the financial statements. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

Uncorrected misstatements

As highlighted in your governance report, there are no uncorrected misstatements.

Annual Governance Statement

We confirm that the Council has conducted a review during the year of the effectiveness of its system of internal control. We are satisfied that the Annual Governance Statement appropriately reflects the circumstances of the Council and its Group and includes an outline of the actions taken, or proposed, to deal with significant internal control issues.

Yours faithfully

Councillor Ungar
Chair of the Audit and Governance Committee

Signed on behalf of the Council

Appendix D: Draft Auditors Opinion

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EASTBOURNE BOROUGH COUNCIL

Opinion on the Authority and Group financial statements

We have audited the financial statements of Eastbourne Borough Council and its Group for the year ended 31 March 2012 under the Audit Commission Act 1998. The statement of accounts comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow Statement, the Authority and Group notes to the statement of accounts, the Housing Revenue Account; the Statement of Movement on the Housing Revenue Account; the Collection Fund Statement and related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Eastbourne Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officers' Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Authority financial statements

In our opinion the Authority financial statements:

- give a true and fair view of the financial position of Eastbourne Borough Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on Group financial statements

In our opinion the Group financial statements:

- give a true and fair view of the financial position of Eastbourne Borough Council's Group affairs as at 31 March 2012 and of its expenditure and income for the year then ended; and

- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

We planned our work in accordance with the Code of Audit Practice. Based on my risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, we are satisfied that, in all significant respects, Eastbourne Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

We certify that we have completed the audit of the accounts of Eastbourne Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Signature: _____

Robert Grant
For and on behalf of PKF (UK) LLP
London, UK

xx September 2012