



## Audit and Governance Committee

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**MEMBERS:** Councillor Swansborough (Chairman); Councillor Sabri (Deputy-Chairman); Councillors Choudhury, Di Cara, Dow, Holt, Smart and Taylor

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## Agenda

- 1 Minutes of the meeting held on 24 June 2015 - Previously circulated.**
- 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 to 30th June 2015.** (Pages 1 - 24)

Report of Internal Audit Manager.

**8 Strategic Risk Register.** (Pages 25 - 34)

Report of Internal Audit Manager.

**9 Annual Governance Report 2014/2015.** (Pages 35 - 70)

Report of External Auditors BDO.

**10 Statement of Accounts 2014/15.** (Pages 71 - 74)

Report of Financial Services Manager.

**Inspection of Background Papers** – Please see contact details listed in each report.

**Councillor Right of Address** - Councillors wishing to address the meeting who are not members of the Committee must notify the Chairman in advance.

**Public Right of Address** – Requests by members of the public to speak on a matter which is listed in this agenda must be **received** in writing by no later than 12 Noon, 2 working days before the meeting e.g. if the meeting is on a Tuesday, received by 12 Noon on the preceding Friday). The request should be made to Local Democracy at the address listed below. The request may be made by letter, fax or e-mail. For further details on the rules about speaking at meetings please contact Local Democracy.

**Disclosure of interests** - Members should declare their interest in a matter at the beginning of the meeting, and again, at the point at which that agenda item is introduced.

Members must declare the existence and nature of any interest.

In the case of a 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). If a member has a DPI he/she may not make representations first.

## **Further Information**

Councillor contact details, committee membership lists and other related information is also available from Local Democracy.

**Local Democracy**, 1 Grove Road, Eastbourne, BN21 4TW

Tel: (01323) 415021/5023 Minicom: (01323) 415111, Fax: (01323) 410322

E Mail: [localdemocracy@eastbourne.gov.uk](mailto:localdemocracy@eastbourne.gov.uk)

Website at [www.eastbourne.gov.uk](http://www.eastbourne.gov.uk)

For general Council enquiries, please telephone (01323) 410000 or E-mail: [enquiries@eastbourne.gov.uk](mailto:enquiries@eastbourne.gov.uk)

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# Agenda Item 7

<b>Body:</b>	AUDIT AND GOVERNANCE COMMITTEE
<b>Date:</b>	23rd SEPTEMBER 2015
<b>Subject:</b>	Internal Audit Report to 30 <sup>th</sup> June 2015
<b>Report Of:</b>	Internal 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 financial year 2015/16.
<b>Recommendation(s):</b>	That the information in this report be noted and members identify any further information requirement and timescales.
<b>Contact:</b>	Jackie Humphrey, Internal Audit Manager, Telephone 01323 415925 or internally on extension 5925. E-mail address jackie.humphrey@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 2015/16 was agreed by the Audit and Governance Committee in March 2015.

## **2.0 Review of work in the first quarter of the financial year 2015/16.**

- 2.1 A list of all the audit reports issued in final from 1<sup>st</sup> April to 30<sup>th</sup> June 2015 is as follows:

Benefits (Annual 2014/15)	Performing Well
Council Tax (Annual 2014/15)	Performing Well
Housing Rents (Annual 2014/15)	Performing Excellently
NNDR (Annual 2014/15)	Performing Excellently
IT (Annual 2014/15)	Performing Inadequately
Conferences and Group Travel	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 2015. The following comments explain the main points to be noted from the table:

- Two reviews (Planning and Licences) went over the time allocated. Both of these were carried out by new members of staff, one of which only joined the team in May.
- The team was one full time member short during April and the first part of May and training of the new member of staff took place during the second half of May. This has meant that the plan is slightly behind in the first quarter but it is hoped that this will be rectified during the rest of the year.

2.3 Appendix B is the list of all reports issued in final during the year which were given an assurance level below “Performing Excellently”, with any issues highlighted in the reviews which informed the assurance level given. NB. 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.

2.4 Appendix C shows the outstanding high and medium priority recommendations from audits and the reasons why they have not been implemented along with the month when the next follow up is due.

2.5 Where the column “priority” in Appendix C shows “High” the outstanding recommendations, and client comments from the report, have been listed at Appendix D. Appendix D is designated as “Confidential” to reduce the risk of opportunities to commit fraud. 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.

2.6 Appendix D has not changed since the last quarter’s report. This is because the follow up of Events is not due until September and the follow up for Printing has been asked to be postponed until September. The postponement for Printing has been requested as the section now covers printing at both Eastbourne and Lewes and new staff are currently being recruited.

### **3.0 Corporate Fraud**

- 3.1 The Corporate Fraud team is undertaking meetings with different sections and work groups to highlight the work they carry out. As part of this they have engaged with the Difficult Property Group. Through this the team identified two properties which had been allocated the wrong Council Tax exemption. This resulted in the increased liability of one property to £635.88. The property had been empty for two years but had not been billed @ 150%. The second property had an old exemption which has now been amended resulting in an increase of £736.49. This work has identified a need for a report to be regularly run to identify such cases in future.
- 3.2 Another team approached was Electoral Services. Due to this meeting arrangements have been put in place for cases to be referred to Corporate Fraud where details given (for individual, property, household) do not match those held by the Council.
- 3.3 One building listed as three NNDR properties was visited as it is undergoing building work. It was established that 18 of the new flats were occupied and Council Tax was therefore informed accordingly. This brings in new income of approx. 18 x £1,104.73. These figures do not yet appear in the recorded figures as a formal evaluation is awaited.
- 3.4 All Right to Buy applications are being reviewed by Corporate Fraud to ensure that the applicant is fully eligible. This has already led to one case being more thoroughly investigated and this is progressing.
- 3.5 Work is also currently being undertaken on the matches of data produced by the National Fraud Initiative. All the high risk recommended cases have been examined, with the exception of the Housing Benefit matches which have been passed to DWP. No outcomes have yet been received from DWP.
- 3.6 A table of savings and income from the work of the Corporate Fraud team for the first quarter of the year can be found at Appendix E.

### **4.0 East Sussex Fraud Hub**

- 4.1 As part of the hub project Eastbourne's Corporate Fraud team has undertaken training in the prevention and detection of fraud in Employment, Blue Badges, Direct Payments and Non Domestic Rates.
- 4.2 The Hub is looking at ways in which cross boundary work can be undertaken to minimise fraud and irregularities in Small Business Relief, as well as a project looking at Charitable Rate Relief to ensure that only genuine charities are receiving the relief and are adhering to set conditions to qualify.
- 4.3 Following on from the Blue Badge training the team is working with East Sussex County Council to introduce measures for verifying Blue Badge application details against those held by Eastbourne.
- 4.4 A Parking Permit project is commencing with a data sharing protocol being written up to allow a project exchanging two years' worth of Parking Permit applicants to be shared between Eastbourne and East Sussex.

- 4.5 The purchase of licences to use a system called Who's Home (a tenancy management solution) has been made with DCLG funding. This unique product gives an in-depth insight into the tenancy data held. This allows for identification of tenants in financial stress, over-crowding/under occupancy, arrears analysis, propensity to pay by Direct Debit, as well as covering fraud issues and other features. The implementation of the product is expected in August 2015.
- 4.6 With the introduction of Who's Home the tenants have been offered an opportunity to take part in the "Experian Rental Exchange" scheme. Under this scheme the details of the rent payments of tenants who opt in will be sent regularly to Experian. Paying their rent on time will therefore be recognised and will automatically enhance their credit rating.
- 4.7 The Hub has just collated its first performance figures for the first quarter of 15/16. The figures come from the member authorities; Eastbourne, East Sussex County Council, Wealden, Lewes and Brighton and Hove. The summary can be seen below.

April - June 2015	No of proven cases	Value of proven cases £	Current cases
Reduction in procurement fraud	0	0	1
Social housing tenancy fraud	14	180,000	71
Right to Buy fraud	0	0	35
CTRS fraud	11	10,446	62
CT discount fraud	7	604	8
NNDR fraud	0	0	4
Grant fraud	0	0	0
Blue Badge fraud	35	175,000	16
Direct Payments	0	0	2
<b>Totals</b>	<b>67</b>	<b>366,050</b>	<b>199</b>

Figures for savings on social housing tenancy fraud and blue badge fraud are those suggested by the Audit Commission in the Protecting the Public Purse publication. This suggests a saving of £18,000 for each property returned and £5,000 for each Blue Badge rescinded.

- 4.8 When the bid for funding from the DCLG was submitted, a forecast of savings had to be included. As none of the authorities had carried out proactive corporate fraud work previously these figures had to be estimated based on the savings suggested in Protecting the Public Purse 2013 "Estimated annual loss to fraud in local government". A lower estimate was given for the first year of work as it was felt that the Hub members would just be testing the water to understand the areas where fraud and inconsistencies could occur.
- 4.9 The projected savings for the Hub in 15/16 and the actual for the quarter so far are shown on Appendix F.
- 4.10 The actual savings are slightly above the target set. The variances from the projected savings may reflect where the focus of work has been rather than a lack of identified areas as yet showing no savings.



## **5.0 Sharing Resources with Lewes District Council**

- 5.1 The Principal Audit Manager at Lewes District Council is taking flexible retirement and will be reducing his hours from five days a week to three from January 2016. In order to help with resourcing Lewes have asked for the Internal Audit Manager at Eastbourne to provide cover for the equivalent of one day a week at Lewes.
- 5.2 The exact days/hours have yet to be fully considered. Lewes have specifically requested that some audit reviews be undertaken and it is therefore likely that during such reviews the Internal Audit Manager would be carrying out more than one day a week on Lewes work.
- 5.3 The net result will be a loss of 12 days of the Internal Audit Manager's time in 15/16 from January to the end of March and around 45 days a year ongoing from 16/17. This will have an impact on the work of Internal Audit at Eastbourne though this will be kept to a minimum. There will also be a corresponding saving in the budget of Internal Audit as Lewes will be funding the days spent on their work.

## **6.0 Consultation**

- 6.1 Respective Service Managers and Heads of Service as appropriate.

## **7.0 Resource Implications**

- 7.1 Financial – Delivered within the approved budget for Internal Audit
- 7.2 Staffing – None directly as a result of this report.

## **8.0 Other Implications**

- 8.1 None

## **9.0 Summary of Options**

- 9.1 None

## **10.0 Recommendation**

- 10.1 That the information in this report be noted and members identify any further information requirement and timescales.

**Jackie Humphrey**  
**Internal Audit Manager**

## **Background Papers:**

The Background Papers used in compiling this report were as follows:

*None*

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			Planned days	Actual days	Reason for Variance
<b>ANNUAL REVIEWS</b>	Benefits	Governance	15	5.3	14/15 work being completed
	Cash and Bank	Governance	10		
	Council Tax	Governance	10	3.2	14/15 work being completed
	Creditors	Governance	15		
	Debtors	Governance	15		
	Housing Rents	Governance	15	1.6	14/15 work being completed
	Main Accounting	Governance	10	0.1	14/15 work being completed
	NNDR	Governance	10	3	14/15 work being completed
	Payroll	Governance	10		
	Treasury Management	Governance	10	0.1	14/15 work being completed
	IT	Governance	4	4.1	14/15 work being completed
	Theatres Reconciliation	Governance	5	0.2	14/15 work being completed
	Claims work		80	18.5	14/15 work being completed and 15/16 work begun
			<b>209</b>	<b>36.1</b>	

Contingency		25		
NFI		20		
Special Investigations/advice		30	7.1	
Follow ups re audits carried out in previous year		30	3.5	
Consultancy		25		
		<b>130</b>	<b>10.6</b>	

<b>CARRY FORWARDS FROM 14/15 PLAN</b>	Waste contract	Contract	10	<b>1.5</b>	
	Software Compliance	IT	5	<b>0.4</b>	
	Internet Controls	IT	10	<b>5.6</b>	In draft
	Change Controls	IT	5		
	CHRIS	IT	5	<b>3.5</b>	In draft
	Electoral Computer System	IT	5		
	Customer Contact	Review	10		
	Planning System	IT	10	<b>12.5</b>	In draft
	Leasing and Licensing	Review	10	<b>0.5</b>	
	Right to Buy	Review	10	<b>1.4</b>	
			<b>80</b>	<b>25.4</b>	

<b>REQUESTS</b>	IT Systems Resilience and Redundancy	Review	10		
	Building Control	Review	10		
			<b>20</b>	<b>0</b>	

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			Planned days	Actual days	Reason for Variance
<b>HIGH RISK</b>	Open Revenues	Review	10		
			<b>10</b>	<b>0</b>	
<b>MEDIUM RISK REVIEWS</b>	Engineering	Review/Contract	10		
	Telephones	Review	10	2.4	
	Personal Loans	Review	10	9.5	In draft
	Seafront Services	Review	15		
	Asset Management	Review	10		
	Licences (Entertainment and Taxis)	Review	10	11.4	In draft
	Procurement	Review	20		
	Business Continuity Planning	Review	10	0.5	
	Cafi Bank Rec	IT	10		
	Performance Management	Review	10		
			<b>115</b>	<b>23.8</b>	
<b>LOW RISK</b>	IT Contract	Contract	5		
			<b>5</b>	<b>0</b>	
<b>PLAN TOTAL</b>			<b>569</b>	<b>95.9</b>	

**APPENDIX B****Reasons for original assurance levels given (below Excellent)**

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

<b>AUDIT REVIEW</b>	<b>ASSURANCE LEVEL</b>	<b>ISSUES NOTED</b>	<b>Level at follow up</b>
Conferences and Group Travel	Adequate	<ul style="list-style-type: none"><li>• The contract template needs to be reviewed</li><li>• Retention of documentation needs to be improved</li><li>• Official names and addresses of businesses were not routinely requested or retained.</li><li>• The payment terms written into the contracts do not reflect those followed in practice.</li></ul>	N/A
Benefits (Annual 14/15)	Well	<ul style="list-style-type: none"><li>• Testing showed cases where overpayments were not being highlighted for recovery action</li></ul>	N/A
Council Tax (Annual 14/15)	Well	<ul style="list-style-type: none"><li>• The suspense account is not regularly checked and cleared.</li></ul>	N/A
IT (Annual 14/15)	Inadequate	<ul style="list-style-type: none"><li>• Some gaps noted in an earlier IT Health check had not been addressed</li><li>• There is no current Disaster Recovery Plan</li><li>• There is no current Business Continuity Plan.</li></ul>	N/A

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AUDIT	NUMBER OF		FOLLOW UP DUE	OUTSTANDING RECS		CURRENT POSITION	NOTES RE FOLLOW UP/RECS OUTSTANDING	PRIORITY
	HIGH	MEDIUM		HIGH	MEDIUM			
HR Management	0	4	Jun-15	0	2	In progress	Work on recommendations ongoing.	Medium
Events	6	3	Sep-15	5	0	Not Yet Due		High
Printing	5	6	Sep-15	3	4	Not Yet Due	Was due in June but asked to postpone as a restructure is taking place	High
Car Parking	1	2	Jun-15	1	2	In progress	Issues with machines meaning variance in income; delays in invoicing and one med rec progressing	Medium
Petty Cash	0	8	Jun-15	-	-	In progress		
Shared Sports Facilities	0	5	Jun-15	-	-	In progress		
Conferences and Group Trav	3	2	Aug-15	-	-	Not Yet Due		

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of the Local Government Act 1972.

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	QUARTER ONE			QUARTER TWO			QUARTER THREE			QUARTER FOUR			YEAR TOTAL		
	Cases	Income	Savings	Cases	Income	Savings	Cases	Income	Savings	Cases	Income	Savings	Cases	Income	Savings
<b>NATIONAL FRAUD INITIATIVE</b>															
Number of cases open	180												180		
Number of cleared cases	1376												1376		
Number of errors identified	64												64		
Number of frauds identified	0												0		
Overpayments identified			35,688.61												35,688.61
<b>HOUSING BENEFIT MATCHING SERVICE</b>															
Number of open matches	41												41		
Number of closed matches	204												204		
Overpayments identified			12,905.57												12,905.57
Weekly incorrect benefit identified			39,713.28												39,713.28
<b>OTHER INVESTIGATIONS</b>															
Number of open investigations	19												19		
Number of closed investigations	62												62		
Overpayments identified			29,426.44												29,426.44
Weekly incorrect benefit identified			39,888.64												39,888.64
Removal of SPD saving			603.78												603.78
Increase in Council Tax liability			3,364.03												3,364.03
Income from court costs		60.00												60.00	
Income from Adpen collection		3,364.03												3,364.03	
<b>TOTALS</b>	<b>1946</b>	<b>3424.03</b>	<b>161590.3</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1946</b>	<b>3424.03</b>	<b>161590.3</b>

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	FIRST QUARTER			FULL YEAR		
	Forecasted performance 15/16 (£,000)	Actual performance First quarter (£,000)	Variance (£,000)	Forecasted performance 15/16 (£,000)	Actual Performance (£,000)	Variance (£,000)
Reduction in procurement	125	0	-125	500	0	-500
Social housing tenancy fraud	125	180	55	500	180	-320
Right to Buy fraud	18.75	0	-18.75	75	0	-75
CTRS fraud	12.5	11	-2	50	11	-39.5
CT discount fraud	25	0.6	-24.4	100	0.6	-99.4
NNDR fraud	12.5	0	-12.5	50	0	-50
Grant fraud	1.25	0	-1.25	5	0	-5
Blue Badge fraud	2.5	175	172.5	10	175	165
Direct Payments	0	0	0	0	0	0
	<b>322.5</b>	<b>366</b>	<b>43.6</b>	<b>1290</b>	<b>366</b>	<b>-924</b>

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# Agenda Item 8

<b>Body:</b>	AUDIT AND GOVERNANCE COMMITTEE
<b>Date:</b>	23 <sup>RD</sup> SEPTEMBER 2015
<b>Subject:</b>	Risk Management –Strategic Risk Register
<b>Report Of:</b>	Internal Audit Manager
<b>Ward(s)</b>	All
<b>Purpose</b>	To provide a report on the updating of the Strategic Risk Register and changes made to it.
<b>Recommendation(s):</b>	To consider and agree the amended Strategic Risk Register.
<b>Contact:</b>	Jackie Humphrey, Internal Audit Manager, Telephone 01323 415925 or internally on extension 5925. E-mail address <a href="mailto:jackie.humphrey@eastbourne.gov.uk">jackie.humphrey@eastbourne.gov.uk</a>

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## **1.0 Introduction**

- 1.1 The terms of reference for the Audit and Governance Committee include the following: Review the effectiveness of the Council's arrangements for identifying and managing risks, internal control environment and corporate governance arrangements.
- 1.2 It has been agreed that the Strategic Risk Register need only be reported to Committee when there are any changes made.

## **2.0 Quarterly review of Strategic Risk Register**

- 2.1. The Strategic Risk Register was taken to Corporate Management Team for its quarterly review to discuss current risks and risk levels listed and to decide whether any new risks need to be added.
- 2.2. At the last pre-agenda meeting for the Audit and Governance Committee, a question was asked about the risk of the Council entering into contracts etc. for which it did not have the proper funding available.
- 2.3. Whilst it was expressed that it was felt this risk fell under SR\_008 on the register (Failure to meet regulatory or legal requirements), it was agreed to propose additional wording to the Corporate Management Team.
- 2.4. At the meeting of the Corporate Management Team on 4<sup>th</sup> August 2015 this wording was discussed and agreed. In the description of the risk the following wording has been added; "7. Entering into contracts etc. without having adequate finance in place". In the Internal Controls column the following wording has been added; "6. All managers are required to abide

by the Council's Procurement Rules".

- 2.5. Risk SR\_004 (the employment market provides unsustainable employment market for the needs of the organisation) was also discussed at the meeting. It was felt that the ongoing shared services work with Lewes was not reflected in the register or in the risk score. Therefore, under point 3 of the internal controls the following sentence has been added; "Pursuit of mutually beneficial shared service arrangements". The mitigated risk, likelihood score was also reduced from a 3 to a 2 which brings the overall risk to green instead of amber. It is felt that this score reflects the evidence of resilience of resources that has come from this work.

### **3.0 Consultation**

- 3.1 Corporate Management Team.

### **4.0 Resource Implications**

- 4.1 Financial – Delivered within the approved budget for Internal Audit
- 4.2 Staffing – None directly as a result of this report, staff are engaged in risk matters on an ongoing basis.

### **5.0 Other Implications**

- 5.1 None

### **6.0 Recommendations**

- 6.1 To consider and agree the amended Strategic Risk Register.

**Jackie Humphrey**  
**Internal Audit Manager**

### **Background Papers:**

The Background Papers used in compiling this report were as follows:

*None*

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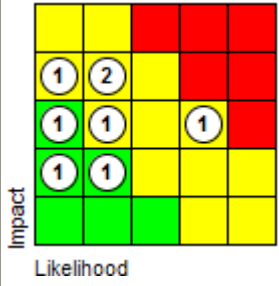
# **STRATEGIC RISK REGISTER**

## **AUGUST 2015**



<b>Code &amp; Title</b>	SR_000 Strategic Risk Register
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**Current Risk Matrix**



**LIKELIHOODIMPACT**  
 1 - Unlikely 1 - Minor  
 2 - Possible 2 - Moderate  
 3 - Likely 3 - Significant  
 4 - Highly Likely 4 - Major  
 5 - Almost Certain 5 - Critical

The numbers relate to the amount of risks currently positioned in each box.

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Mitigated Likelihood	Mitigated Impact	Current Risk Score	Traffic Light	Next Review Date
SR_001	No political and partnership continuity/consensus with regard to organisational objectives	Sudden changes of political objectives at either national or local level renders the organisation, its current corporate plan and Medium Term Financial Strategy unfit for purpose.	3	4	12	<p>1. Create inclusive governance structures which rely on sound evidence for decision making.</p> <p>2. Annual review of corporate plan and Medium Term Financial Strategy</p> <p>3. Creating an organisational architecture through the DRIVE Programme that can respond to changes in the environment.</p>	CMT	1	2	2	Green	01-Nov-2016
SR_002	Changes to the economic environment makes the Council economically less sustainable	<p>1. Economic development of the town suffers.</p> <p>2. Council objectives cannot be met.</p>	4	4	16	<p>1. Robust Medium Term Financial Strategy reviewed annually and monitored quarterly. Refreshed in line with macro economic environment triennially.</p> <p>2. Creating an organisational architecture through the DRIVE Programme that can respond to changes in the environment.</p>	CMT	4	3	12	Amber	01-Nov-2015

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Mitigated Likelihood	Mitigated Impact	Current Risk Score	Traffic Light	Next Review Date
SR_003	Unforeseen socio-economic and/or demographic shifts creating significant changes of demands and expectations.	<p>1. Unsustainable demand on services.</p> <p>2. Service failure.</p> <p>3. Council structure unsustainable and not fit for purpose.</p> <p>4. Heightened likelihood of fraud.</p>	2	4	8	<p>1. Grounding significant corporate decisions based on up to date, robust, evidence base. (e.g. Census; Local Futures Toolkit/data modelling; East Sussex in Figures data modelling).</p> <p>2. Ensuring community and interest group engagement in policy development (e.g. Neighbourhood Management Schemes; Corporate Consultation Programme)</p>	CMT	2	3	6	Amber	01-Nov-2015
SR_004	The employment market provides unsustainable employment base for the needs of the organisation	Employment market unable to fulfil recruitment and retention requirements of the Council resulting in a decline in performance standards and an increase in service costs.	4	4	16	<p>1. DRIVE change programme to increase non-financial attractiveness of EBC to current and future staff.</p> <p>2. Appropriate reward and recognition policies reviewed on a regular basis.</p> <p>3. Review of organisation delivery models to better manage the blend of direct labour provision. Pursuit of mutually beneficial shared service arrangements.</p>	CMT	2	2	4	Green	01-Nov-2015

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Mitigated Likelihood	Mitigated Impact	Current Risk Score	Traffic Light	Next Review Date
SR_005	Not being able to sustain a culture that supports organisational objectives and future development.	<ul style="list-style-type: none"> <li>1. Decline in performance.</li> <li>2. Higher turnover of staff.</li> <li>3. Decline in morale.</li> <li>4. Increase in absenteeism.</li> <li>5. Service failure</li> <li>6. Increased possibility of fraud.</li> </ul>	3	4	12	<ul style="list-style-type: none"> <li>1. Deliver a fit for purpose organisational culture through DRIVE change programme.</li> <li>2. Continue to develop our performance management capability to ensure early intervention where service and/or cultural issues arise.</li> <li>3. Continue to develop communications through ongoing interactions with staff.</li> </ul>	CMT	2	4	8	Amber	01-Nov-2015
SR_006	Council prevented from delivering services for a prolonged period of time.	<ul style="list-style-type: none"> <li>1. Denial of access to property</li> <li>2. Denial of access to technology/information</li> <li>3. Denial of access to people</li> </ul>	3	5	15	<ul style="list-style-type: none"> <li>1. Regularly reviewed and tested Business Continuity Plans.</li> <li>2. Regularly reviewed and tested Disaster Recovery Plan.</li> <li>3. DRIVE change programme has created a more flexible, less locationally dependent service architecture.</li> <li>4. Adoption of best practice IT and Asset Management policies and procedures.</li> </ul>	CMT	2	4	8	Amber	01-Nov-2015

SR_00 7	Council materially impacted by the medium to long term effects of an event under the Civil Contingencies Act	<ol style="list-style-type: none"> <li>1. Service profile of the Council changes materially as a result of the impact of the event.</li> <li>2. Cost profile of the Council changes materially as a result of the impact of the event.</li> </ol>	3	5	15	<ol style="list-style-type: none"> <li>1. Ongoing and robust risk profiling of local area (demographic and geographic).</li> <li>2. Review budget and reserves in light of risk profile.</li> <li>3. Working in partnership with other public bodies.</li> </ol>	CMT	1	3	3	Green	01-Nov-2015
SR_00 8	Failure to meet regulatory or legal requirements	<ol style="list-style-type: none"> <li>1. Credibility of the Council is negatively impacted.</li> <li>2. Deterioration of financial position as a result of regulatory activity/penalties.</li> <li>3. Deterioration of service performance as a result of regulatory activity/penalties.</li> <li>4. Increased probability of prosecutions and compensation claims as a result of inadequate management of Health and Safety duties.</li> <li>5. Possibility of fraud and bribery.</li> <li>6. Ensure compliance</li> </ol>	3	4	12	<ol style="list-style-type: none"> <li>1. Developing, maintaining and monitoring robust governance framework for the Council.</li> <li>2. Building relationships with regulatory bodies.</li> <li>3. Develop our Performance Management capability to ensure early intervention where service and/or cultural issues arise.</li> <li>4. Take forward the recommendations of the CIPFA Asset Management report to ensure we meet regulatory/legal requirements regarding the management of property.</li> <li>5. Ensure there is full understanding the impact of new legislation (e.g. Localism Act).</li> </ol>	CMT	1	4	4	Amber	01-Nov-2015

		<p>with legislation such as Data Protection and Safeguarding.</p> <p>7. Entering into contracts etc. without having adequate finance in place.</p>				<p>6. All managers are required to abide by the Council's procurement rules.</p>						
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# EASTBOURNE BOROUGH COUNCIL

FINAL REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE

Audit for the year ended 31 March 2015

14 September 2015



# CONTENTS

OVERVIEW .....	1	APPENDIX I: DEFINITIONS.....	22
INDEPENDENCE .....	3	APPENDIX II: AUDIT DIFFERENCES.....	23
AUDIT SCOPE AND OBJECTIVES.....	4	APPENDIX III: MATERIALITY .....	27
FINANCIAL STATEMENTS.....	5	APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN .....	28
CONTROL ENVIRONMENT .....	14	APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN .....	29
GOVERNANCE REPORTING.....	15	APPENDIX V: STATUTORY AND PROFESSIONALLY REQUIRED COMMUNICATIONS .....	30
WHOLE OF GOVERNMENT ACCOUNTS .....	16	APPENDIX VI: DRAFT REPRESENTATION LETTER .....	31
USE OF RESOURCES.....	17		

# OVERVIEW

## Significant audit findings

This summary covers the significant findings from our audit of Eastbourne Borough Council ('Council') for the year ended 31 March 2015. However, you should read the entirety of this report, as there may be other matters raised that you consider important.

AREA OF AUDIT	SUMMARY
Financial statements	<p>Subject to satisfactory completion of the outstanding audit work on page 2, we anticipate issuing an unqualified true and fair opinion on the financial statements for the year ended 31 March 2015.</p> <p>Our final audit materiality is £2 million (see appendix III) and we have reported all non-trivial unadjusted audit differences greater than £40,000.</p> <p>Our audit identified one material presentational misstatement to the value of £4.391 million, where the write down of replaced components on refurbishment of council dwellings has been classified as an impairment loss rather than a loss on derecognition of property, plant and equipment. Management has agreed to amend this in the revised financial statements. There is no impact on the surplus on provision of services or the general fund balance.</p> <p>Four unadjusted audit differences were identified during the audit and when combined with a brought forward misstatement from the prior year would increase the draft surplus on the provision of services in the CIES by £276,000 to £7.393 million (from £7.117 million). There are further unadjusted audit differences in the accounts of Eastbourne Homes Limited, as identified by their auditors, which impact on the Group Accounts. When combined with the unadjusted audit differences on the Council accounts, these would increase the surplus on the provision of services in the Group accounts by £199,000 to £6.753 million (from £6.554 million).</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 ended 31 March 2015.</p>
Control environment	<p>We did not identify any significant deficiencies in internal controls during the course of our audit.</p> <p>Some other areas for improvement in internal control were identified which we have discussed with management.</p>
Governance reporting	<p>We are satisfied that the annual governance statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with "Delivering Good Governance in Local Government" (CIPFA / SOLACE).</p>
Whole of Government Accounts (WGA)	<p>The Council is below the threshold for review of the data collection tool return.</p>
Use of resources	<p>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 2015. We anticipate issuing an unqualified value for money conclusion.</p>

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

# OVERVIEW

## Audit status and timetable to completion

We set out below the current status of the audit and our timetable to completion.

### AUDIT STATUS

We have substantially completed our audit work in respect of the financial statements and use of resources for the year ended 31 March 2015. The following matters are outstanding at the date of this report.

We will update you on their current status at Audit and Governance Committee meeting.

- Clearance of outstanding issues raised with management regarding:
  - Reconciliations confirming the completeness of information transferred from Northgate to Open Revenues for housing benefits
  - Reconciliation between revaluation movements in the property, plant and equipment note, the capital adjustment note and the Movement in Reserves note
  - Reconciliation of the financial performance information in the Foreword to the financial statements
  - Audit of the Group Cash Flow Statement
- Clearance of Internal Audit's queries on their initial testing of 60 housing benefit cases
- Final review of our audit work and clearance of any review points arising
- Receipt of final draft statement of accounts for agreed amendments
- Subsequent events review
- Management representation letter, as attached in Appendix VI, to be approved and signed.

### TIMETABLE TO COMPLETE

The anticipated timetable to complete is as follows:

ACTIVITY	DATE
Completion of outstanding audit work	By 23 September 2015
Audit and Governance Committee meeting	23 September 2015
Completion and issue of the auditor's report	23 September 2015

# INDEPENDENCE

## Integrity, objectivity and independence and appropriate safeguards

Under Audit Commission Standing Guidance and Auditing and Ethical Standards, we are required as auditors to confirm our independence to ‘those charged with governance’. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit and Governance as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to bear on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the audit engagement partner and the audit staff. We have considered such matters in the context of our audit for the year ended 31 March 2015.

### FEES AND NON AUDIT SERVICES

A summary of fees for audit and non-audit services for the period from 1 April 2014 to date is set out below:

	£
Audit fees	90,374
Certification fees	11,062
Fees for non audit services:	
- Tax subscription	<sup>(1)</sup> 2,500
- Pooled capital receipts	<sup>(2)</sup> TBA
<b>TOTAL FEES</b>	<b>103,936</b>

### OTHER RELATIONSHIPS

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

### LONG ASSOCIATION THREATS

The Audit Commission’s Standing Guidance requires that the audit engagement partner should not act for more than five years and the audit manager for 10 years.

Key audit staff	Years involved
Leigh Lloyd-Thomas - Audit engagement partner	3
Janine Combrinck - Audit Manager	2

<sup>(1)</sup> The Council subscribes to a Tax helpline operated by BDO for payroll and construction industry taxes.

<sup>(2)</sup> The audit of the pooling of housing capital receipts return has been removed from the Audit Commission regime. DCLG still requires this return to be reviewed and it is expected that we will complete this review. We will be required to produce a separate engagement letter and propose a separate fee as soon as DCLG finalises the work required for this audit.

### INDEPENDENCE DECLARATION AND APPROPRIATE SAFEGUARDS

We have not identified any potential threats to our independence as auditors.

# AUDIT SCOPE AND OBJECTIVES

## Code of audit practice requirements

### SCOPE AND OBJECTIVES

The audit scope is determined by the Audit Commission's Code of Audit Practice for local government (2010), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. This requires that we form an opinion on whether:

- 1** The financial statements give a true and fair view of the financial position as at 31 March 2015 and of the income and expenditure for the year then ended.
- 2** The financial statements have been prepared properly in accordance with statutory requirements and proper practices have been observed in their compilation.
- 3** The financial statements have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting.
- 4** The information given in the statement of accounts and explanatory foreword is consistent with the financial statements.
- 5** The annual governance statement is not inconsistent with our knowledge and complies with relevant guidance.
- 6** The Whole of Government Accounts return is consistent with the audited financial statements and that it is properly prepared (subject to a de-minimis threshold).
- 7** The audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

# FINANCIAL STATEMENTS

## Key audit and accounting matters

### SIGNIFICANT AND OTHER RISKS OF MATERIAL MISSTATEMENT

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 2014/15 Audit Plan issued in February 2015. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the draft financial statements. We have extended the significant risk that we previously reported regarding the change to the housing benefits system to also include the council tax and non domestic rates systems.

We report below our findings of the work designed to address these significant risks, our review of significant accounting estimates and management judgements, and any other relevant audit and accounting issues arising.

**Key:** ■ Significant risk/issue    ■ Significant accounting estimates and management judgements    ■ Other relevant audit and accounting issues

### SIGNIFICANT AUDIT RISK AREAS

RISK	RELATED CONTROLS / RESPONSE TO RISK	WORK PERFORMED	CONCLUSION
<b>MANAGEMENT OVERRIDE OF CONTROLS</b>	<p>ISA (UK&amp;I) 240 requires us to presume that a risk of management override of controls is present and significant in all entities.</p> <p>By its nature, there are no controls in place to mitigate the risk of management override.</p>	<p>We reviewed the appropriateness of journal entries and other adjustments made in the preparation of the financial statements.</p> <p>We also reviewed accounting estimates for evidence of possible bias.</p>	<p>No issues have been identified in our review of the appropriateness of journal entries and other adjustments made in the preparation of the financial statements.</p> <p>Our work on accounting estimates has not identified any evidence of bias.</p>
<b>REVENUE RECOGNITION</b>	<p>Auditing standards presume that there is a risk of fraud in relation to revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue.</p>	<p>Our review of revenue recognition has focused on testing existence, completeness and accuracy of fees and charges across all service areas within the CIES.</p>	<p>No issues have been identified from our testing of income streams and year end cut off with regard to the recognition of revenue in the correct financial year.</p>

# FINANCIAL STATEMENTS

## Key audit and accounting matters

SIGNIFICANT AUDIT RISK AREAS			
RISK	RELATED CONTROLS / RESPONSE TO RISK	WORK PERFORMED	CONCLUSION
OPEN REVENUES SYSTEM CHANGE	The Council replaced its collection fund revenues and housing benefit system from Northgate Iworld to Civica OpenRevenues during the year. Prior to the new system going live in August 2014, the Council prepared a series of reconciliations of closing balances in the previous system to opening balances in the new system. Action plans were formulated from the initial testing results and issues were resolved with Civica.	We obtained the council tax and non domestic rates reports from both systems and reviewed the reconciliations of the final transferred data (including the net charge, reliefs, write-offs, payments, refunds and costs, including all historical data back to 1993).	We are satisfied that council tax and non domestic rates data has been completely and accurately transferred from Northgate to Civica OpenRevenues, with only trivial variances identified.
		We are in the process of completing our audit work in respect of the migration of the benefits system.	We will conclude on the transfer of benefits data when we have completed our audit work on these reconciliations.
IFRS 10 AND 11 CONSOLIDATION STANDARDS	The Code of Practice for Local Authority Accounting 2014/15 includes the new consolidation suite of accounting standards (IFRS 10, 11 and 12), which introduced a new definition of control to determine whether entities and joint arrangements should be consolidated into Group financial statements. The Council has reviewed its interests in other entities and contractual arrangements to determine whether it has rights to, or is exposed to, variable returns and the power to affect the amount of those returns.	We have reviewed the Council's justification for its accounting treatment of all material interests in other entities, and underlying records, to determine whether the new definition of control under IFRS 10 and 11 has been sufficiently considered and appropriately applied.	Having considered the new accounting standards, the Council has not changed its accounting treatment for any its interests in other entities, as they either do not fall within the new definition of control or the organisation's transactions are not material to the Council and therefore it is acceptable that they have been excluded from consolidation.  We have considered the disclosure of the Council's interests in entities in the financial statements and have suggested that a loan of £1.031 million be reclassified from long term investments to long term debtors. Management has agreed to make this amendment in the revised financial statements. At our request the Council has also extended its accounting policy on financial instruments to explain that its investment in two entities are accounted for as Available for Sale Assets, although these investments are carried at cost.



# FINANCIAL STATEMENTS

## Key audit and accounting matters

### SIGNIFICANT ACCOUNTING ESTIMATES AND MANAGEMENT JUDGEMENTS

ESTIMATE	WORK PERFORMED	CONCLUSION
<p><b>PENSION LIABILITY</b></p>	<p>The net pension liability comprises the Council's share of the market value of assets held in the East Sussex Pension Fund and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation. Management has agreed the assumptions made by the actuary to support the estimate and these are disclosed in the financial statements.</p> <p>We have reviewed the reasonableness of the assumptions applied by comparing these to the expected ranges provided by an independent consulting actuary report.</p>	<p>As at 31 March 2015 net pension liabilities disclosed in the balance sheet increased by £3.2 million. This comprised an increase in the liabilities of £13.3 million (to £135.3 million) and an increase in assets of £10m million (to £95.7 million). It should be noted that these retirement benefits (liabilities) will not actually be payable until employees retire but because the Council has a commitment to make the payments (for those benefits) there is a requirement to disclose the information in the accounts at the time employees earn their future entitlement.</p> <p>The last formal valuation of the Fund was carried out as at 31 March 2013. In order to assess the value of the Council's liabilities as at 31 March 2015 the actuary has rolled forward the value of the liabilities calculated at the latest formal valuation, allowing for up to date financial assumptions.</p> <p>The key changes to the financial assumptions relate to:</p> <ul style="list-style-type: none"> <li>• reduction in the pension increase from 2.6% to 2.1%</li> <li>• reduction in the salary increase rate from 4.4% to 4%</li> <li>• reduction in the discount rate from 4.1% to 3.1% (to place a current value on the future liabilities through the use of a market yield of corporate bonds).</li> </ul> <p>The reduction in the discount rate has resulted in a significant increase in the present value of the scheme liabilities at 31 March 2015.</p> <p>We have compared the assumptions used by the actuary to calculate the present value of future pension liabilities with the expected ranges provided by the independent consulting actuary.</p> <p>The Fund has out-performed the market for the year, with returns at 11.7%.</p> <p>We are satisfied that the assumptions used are not unreasonable or outside of the expected ranges.</p>

# FINANCIAL STATEMENTS

## Key audit and accounting matters

### SIGNIFICANT ACCOUNTING ESTIMATES AND MANAGEMENT JUDGEMENTS

ESTIMATE	WORK PERFORMED	CONCLUSION
<p>PROPERTY, PLANT AND EQUIPMENT</p>	<p>Councils are required to undertake additional work to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the fair value at the balance sheet date.</p> <p>In order to address this, the Council has obtained a year end desktop review of the movement in its property prices from Wilkes, Head &amp; Eve, and has accounted for indexation based on the indices advised by the valuers. We have reviewed management's use of these indices and compared them to expected movements using other available information to 31 March 2015.</p>	<p>As at 31 March 2015 PPE had increased by £8.882 million due to indexation (the majority being attributable to council dwellings).</p> <p>The year-end review by the valuer indicates an increase of 7.3% for council dwellings during 2014/15. We are satisfied that this is reasonable compared to regional movements.</p> <p><b>Write off of capitalised expenditure on council dwellings</b></p> <p>The Council had written off capital expenditure incurred on council dwellings as an impairment charge of £4.391 million in the draft financial statements on the grounds that management considered that it did not add any enhanced value to the properties.</p> <p>The Council has not derecognised any of the items replaced in the refurbishment work as these are not separately identifiable. Under IAS 16 Property, plant and equipment, the Council should have estimated the carrying value of the replaced items and removed them from PPE balances, recognising a loss on derecognition, rather than impairing the assets.</p> <p>Management has agreed to reclassify the entries in the PPE note in the revised financial statements to recognise a loss on derecognition of non-current assets of £4.391 million in the CIES (within operating expenditure rather than an impairment within the cost of services). This has also involved amendments to the Movement in Reserves Statement, capital adjustment account, HRA and corresponding notes.</p> <p><b>Accounting for revaluation adjustments</b></p> <p>The revaluations losses recognised in the draft financial statements were not correctly classified between the revaluation reserve and the CIES for four assets, with the result that the revaluation reserve balances on these assets went into debit by £89,000. An unadjusted misstatement has been recorded in Appendix II for £89,000 understatement of expenditure, understatement of revaluation reserve balance, with a corresponding unadjusted transfer to the capital adjustment account through the Movement in reserves Statement.</p>

# FINANCIAL STATEMENTS

## Key audit and accounting matters

### SIGNIFICANT ACCOUNTING ESTIMATES AND MANAGEMENT JUDGEMENTS

ESTIMATE	WORK PERFORMED	CONCLUSION
ALLOWANCES FOR DOUBTFUL DEBTS	<p>We have reviewed the methodology used by the Council for calculating its debtors impairment allowances. For housing benefits overpayments, housing rent, council tax and non domestic rate arrears, the provisions are calculated by assigning percentages to aged arrears based on actual write offs in each year.</p>	<p><b>Housing benefit overpayments impairment</b></p> <p>The impairment rates applied to invoiced housing benefit overpayments are supported by actual write off rates. Due to the change in the benefits system in the year the Council is unable to calculate this information for arrears that are being recovered from ongoing entitlement. A provision percentage of 70% has been applied, being the average of the percentages for the invoiced overpayments. We would expect the collection of overpayments from ongoing benefits to be higher than for invoiced amounts. However, the use of a lower rate would not result in a material change to the provision. The provision at 31 March 2015 is £3.746 million, a decrease of £80,000 from the prior year.</p> <p><b>Council tax arrears and non domestic rates arrears impairments (collection fund)</b></p> <p>We are satisfied that the impairment rates applied to these arrears are supported by actual write off rates. The council tax provision at 31 March 2015 is £3 million. The Council's share is £419,000, an increase of £81,000 from the prior year. The overall non domestic rates provision at 31 March 2015 is £603,000. The Council's share is £241,000, an increase of £24,000 from the prior year.</p> <p><b>Other arrears impairment</b></p> <p>The Council has other provisions for housing rent arrears, private sector leasing and sundry debtors totalling £378,000 at 31 March 2015, an increase of £155,000 from the prior year. We are satisfied that these provisions are not unreasonable.</p>

# FINANCIAL STATEMENTS

## Key audit and accounting matters

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES		
ISSUE	WORK PERFORMED	CONCLUSION
GROUP ACCOUNTS AND CONSOLIDATION	We have checked the consolidation of Eastbourne Homes Limited (EHL) financial statements in the Group Accounts and we have reviewed EHL's auditor's report on the financial statements.	<p>The consolidation in the draft accounts did not remove £500,000 of capital recharges due to EHL by the Council. The Group Accounts have been amended in the revised financial statements to reduce short term debtors and short term creditors by £500,000.</p> <p>The auditors of EHL have reported four unadjusted misstatements in EHL's financial statements, which if corrected in the Group Accounts would decrease the surplus by £77,000. This unadjusted audit difference for the Group Accounts is recorded in Appendix II.</p> <p>The Group Cash Flow Statement in the draft financial statements was not presented in accordance with requirements of the Code of Practice on Local Authority Accounting, as EHL's financial statements are prepared under UK GAAP. The Council is in the process of re-producing the Group Cash Flow Statement on the required basis for the final financial statements.</p>
NON DOMESTIC RATES LEVY	We have reviewed the non domestic rates expenditure in the CIES against supporting documentation.	The non domestic rates levy is stated at £474,000 in the accounts. It has been erroneously double counted and therefore business rate retention expenditure and creditors are overstated by £237,000. This has been recorded as an unadjusted audit difference in Appendix II.
SECTION 31 GRANT	Management has informed us of an under accrual of the section 31 grant income and debtor for small business rate relief.	Non-specific grants income and debtors from central government are understated by £105,000, as the amount accrued was taken directly from the NNDR3 form without making the necessary adjustments. This has been recorded as an unadjusted difference in Appendix II.
NON DOMESTIC RATES APPEALS PROVISION	We have checked the accuracy of the provision calculations and the reasonableness of the assumptions made by agreeing to reports received from the Valuation Office Agency, including information available for recent successful appeals rates.	<p>In the working papers supporting the provision calculation, the total number of appeals settled in the year does not agree to the OpenRevenues report, which means that the movements disclosed in the provisions note for the Council's share of the provision are misstated in the draft financial statements. The amount utilised is understated and £109,000 and the amount of additional provision is overstated. Management has agreed to correct this in the final financial statements.</p> <p>In reviewing the provision calculations, we identified an incorrect formula whereby the annual multiplier is multiplied by the annual charge rather than the rateable value, resulting in an understatement of the provision. The understatement on the charge to the Collection Fund is £95,000, of which the Council's share is £38,000 and the preceptors' share if £57,000. This has been recorded as an unadjusted audit difference in Appendix II.</p>

# FINANCIAL STATEMENTS

## Key audit and accounting matters

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES		
ISSUE	WORK PERFORMED	CONCLUSION
CASH FLOW STATEMENT	We have reviewed the presentation of the Cash Flow Statement against the underlying accounting records	Our audit found that some capital creditors are included in the general creditors control account, rather than the capital creditors account, and were therefore not correctly treated in the Cash Flow Statement. The financial statements have been amended to transfer £1.070 million from 'purchase of property, plant and equipment' to 'payment for goods and services' in the Cash Flow Statement.
SUBSEQUENT EVENTS	<p>On 8 July 2015, the Chancellor announced a number of proposals in the social housing sector that will reduce rents by 1% each year for four years, from 2016/17.</p> <p>This likely to have a future impact on the carrying value of dwellings which are valued using a social housing discount to reflect the difference between market and social rents.</p>	<p>Events after the reporting period and before the approval of the financial statements, which may result in a material adjustment in the future, are required to be disclosed by way of a note to the financial statements. The disclosure should describe the nature of the event and either the potential financial effect or a statement that such an estimate cannot be made.</p> <p>Management has included this information in the subsequent events note in the revised financial statements.</p>

# FINANCIAL STATEMENTS

## Key audit and accounting matters

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES		
ISSUE	WORK PERFORMED	CONCLUSION
ACCOUNTS DISCLOSURES	We reviewed material accounting disclosures, to confirm that they are correctly stated and in compliance with the requirements of the Code.	<p>Management has agreed to make the following presentational and disclosure amendments to the draft financial statements:</p> <ul style="list-style-type: none"> <li>- Extension of the accounting policy note for accruals of income and expenditure to state that housing rent income and housing benefit expenditure is recognised on a 52 / 53 week basis</li> <li>- Extension of the accounting policy note for recognition of council tax and business rates income in the CIES</li> <li>- Amendments to the disclosure of revenue expenditure funded from capital under statute and the application of capital grants and contributions to capital financing in the Movement in Reserves Statement, capital expenditure and financing note and unusable reserves note</li> <li>- Minor amendments to the audit fees note</li> <li>- Amendments to the officer's remuneration note to only disclose the amounts paid to new senior managers from the date that they took up the posts</li> <li>- Disclosure of future lease liabilities in the Obligations under long term leases note and inclusion of draw down during 2014/15 in the future minimum payments disclosure</li> <li>- Inclusion of a reconciliation between the long term creditors balance in the balance sheet and the long term lease liabilities note</li> <li>- Amendments to the amounts reported for resources allocation decisions note as the reconciliation for subjective analysis did not reconcile to the CIES and grants and contributions receivable note in the draft financial statements.</li> <li>- Amendments to the table in the valuation of property note to correctly disclose the revaluations or indexation</li> <li>- Amendments to the financial instruments disclosures to adjust the carrying value of trade accounts receivable and to add back £347,000 of trade creditors with other local authorities which relate to contractual payments rather than under statute</li> <li>- Amendment to the post employment benefits note for the amount the Council anticipates paying for expected contributions to the scheme in 2015/16, from £1.943 million to £1.779 million</li> <li>- Reclassification of Towner Trust contingent asset to a contingent liability, and inclusion of further narrative about the transfer of liability</li> <li>- Amendments to the classification of items in the HRA statement so as to reconcile to the CIES</li> <li>- Amendment to the gross yield before adjustments figure in the Collection Fund note 3, from 37.8 to 38.7.</li> </ul>

# FINANCIAL STATEMENTS

## Key audit and accounting matters

### OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES

ISSUE	WORK PERFORMED	CONCLUSION
ACCOUNTS DISCLOSURES (continued)		The financial statements include a number of notes that are not material, such as assets held for sale, inventories, provisions and agency arrangements. These should be removed as they detract from the material information in the financial statements. Management has agreed to consider deleting immaterial notes going forward.

### FINANCIAL STATEMENTS OPINION

Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified true and fair opinion on the financial statements for the year ended 31 March 2015.

# CONTROL ENVIRONMENT

## Significant deficiencies

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. We have not identified any significant control deficiencies. We have identified other deficiencies in controls and reported these to management as set out below.

As the purpose of the audit is for us to express an opinion on the financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control. We only restate weaknesses already reported by internal audit where we consider these to be significant deficiencies.

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION
JOURNALS	The Council's financial policies only require formal authorisation for journals over £100,000. Internal Audit's testing of the financial ledger system in the year noted that there were 1,020 journals under £100,000 in the financial year to 12th December 2014.	Insufficient review of journals below the threshold for formal authorisation increases the risk of undetected fraud and error.	Management should implement Internal Audit's recommendation to implement a check on journals under £100,000.
ACCESS TO THE FIXED ASSET REGISTER	The fixed asset register is maintained through an Excel document that is not password protected and does not provide trails of changes.	In the absence of appropriate access controls over the fixed asset register there is a risk of unauthorised changes that could impact on the accounts.	The Council should implement password access controls for the fixed asset register.
EMPLOYMENT TAX - PERSONAL SERVICE COMPANIES	The Council uses a number of workers who are supplied by their own personal service companies (PSCs). PSCs are paid by accounts payable and there is no system in place for checking that companies are registered as such at Companies House, are registered for VAT, are invoicing the Council in the name of the PSC and that the Council are making payments direct to the PSC.	Where a worker is supplied by a PSC then, under the IR35 provisions, any PAYE/NICs due because the worker would have been deemed to be a Council employee but for the PSC, are a liability of the PSC rather than the Council.  Whilst the PAYE/NIC risk to the Council is small this only applies if a company exists and payments are made direct by the Council to the company.	Management should implement a system for checking registration details for PSCs used and ensure that payments are made to PSCs rather than any individuals of the PSC.

We made the observations reported to you above during the course of our normal audit work. Management responses to our recommendations in respect of these significant deficiencies and other internal control improvements are included in appendix IV.



# GOVERNANCE REPORTING

## Governance matters and quality of reporting

### FINANCIAL STATEMENTS PREPARATION

The draft financial statements, within the statement of accounts, was prepared and provided to us for audit on 30 June 2015.

As part of our planning for the audit, we prepared a detailed document request which outlined the information we would require to complete the audit. As in previous years, a file of audit working papers has been provided to us at the start of the audit.

### CONCLUSIONS AND AUDIT ISSUES

We have no significant matters to report.

### GOVERNANCE STATEMENT

We are required to review the draft governance statement and to be satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Councils review of effectiveness and our knowledge of the Council.

### CONCLUSIONS AND AUDIT ISSUES

We are satisfied that the governance statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with “Delivering Good Governance in Local Government” (CIPFA / SOLACE).

### STATEMENT OF ACCOUNTS

We are required to read all the financial and non-financial information in the explanatory foreword to the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.

### CONCLUSIONS AND AUDIT ISSUES

Subject to inclusion of explanations for reconciling outturn information disclosed in the foreword to the financial statements and a few minor corrections, we are satisfied that the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

The forward should be extended to include information on the required levels of savings in the medium term and how they are expected to be achieved, and key performance information against strategic objectives.

# WHOLE OF GOVERNMENT ACCOUNTS

## Consistency of the Data Collection Tool

### BELOW THRESHOLD

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

The Council falls below the threshold for review and there is no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure.

# USE OF RESOURCES

## Scope of the review

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

- The organisation has proper arrangements in place for securing financial resilience (robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future)
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness (prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity).

### APPROACH

We draw sources of assurance relating to value for money responsibilities from:

- the Council's system of internal control as reported on in its governance statement
- the results of the work of inspectorates and review agencies
- any other locally determined risk-based value for money work that auditors consider necessary to discharge their responsibilities.

We also consider the findings from the following sources:

- value for money profiles tool and financial ratios analysis tool
- risk indicators
- key issues facing the sector

# USE OF RESOURCES

## Key economy, efficiency and effectiveness matters

### SIGNIFICANT AND OTHER RISKS OF MATERIAL MISSTATEMENT

We reported our risk assessment, which included use of resources risks, in the 2014/15 Audit Plan issued in February 2015. We have since undertaken a more detailed assessment of risk following completion of the interim review of financial controls, review of the draft financial statements and review of operational performance for the year, and we have not identified any new risks.

We report below our findings of the work designed to address these significant risks.

**Key:** ■ Significant risk/issue

RISK	WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 54</p> <p><b>FINANCIAL SUSTAINABILITY</b></p>	<p>We have reviewed the financial performance of the Council to date and its financial sustainability through review of the medium term financial and strategic plans.</p> <p>In 2014/15, the Council originally budgeted for a decrease in the general fund of £209,000 and a transfer to earmarked reserves of £500,000. There were some overspends in the year but these were offset by a contingency allowance in the budget, increased performance in housing benefits overpayments recovery, increased income and reduced costs in other areas. This allowed the Council to transfer £510,000 to earmarked reserves and £212,000 to the general fund, reporting a small underspend of £15,000 against the revised budget.</p> <p>The general fund balance at 31 March 2015 is £4.899 million, which is above the £2 million minimum level recommended by the Chief Finance Officer, and provides sufficient headroom to act as a potential buffer against future risks and create further opportunities for one off investments.</p> <p>The overall balance on earmarked reserves (general fund and HRA) is £6.351 million at 31 March 2015. The majority of the transfer to earmarked reserves in the year was to facilitate regeneration projects under the Council's Transformation programme (DRIVE), and was approved by members.</p> <p>The Council achieved £587,000 of its efficiency savings target of £608,000 in 2014/15, which included schemes under Phase 1 of the Council's Sustainable service delivery programme (SSDS) programme and schemes related to the waste contract.</p>	<p>The Council has a track record of delivering underspends in both the General Fund and HRA and the rolling efficiency plans have delivered the required savings in each year to date.</p> <p>Looking forward the Council will need to ensure that any adverse impact in relation to change in social rents is incorporated into their HRA Business Plan and programmes are developed to make the necessary savings.</p> <p>There are reasonable levels of reserves and balances available to support the Council's services and the savings required from 2016/17 are not significantly above the savings that have been delivered in recent years.</p> <p>Therefore, while there is a recognised funding gap in the MTFS, we are satisfied that the Council has appropriate arrangements to continue to remain financially sustainable over the period of the MTFS.</p>

# USE OF RESOURCES

## Key economy, efficiency and effectiveness matters

RISK	WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 55</p> <p><b>FINANCIAL SUSTAINABILITY (continued)</b></p>	<p>The outturn on the Housing Revenue Account (HRA) in 2014/15 was a £446,000 surplus, against a budgeted surplus of £308,000. There has been an underspend of £1.184 million on the capital programme for council dwelling improvements. Management reported that this is due to timing issues rather than genuine underspends and that the capital programme for 2015/16 has been updated to reflect the re-profiling changes required.</p> <p>In light of the recent announcements made by the Chancellor in relation to a change to the convergent rents formula that will be replaced with a formula that requires a 1% decrease in rents each year, for four years, commencing from 1 April 2016 the Council is considering how this will impact on its HRA Business Plan. It is likely that future HRA surpluses and the capital programme could be significantly reduced.</p> <p>The council tax balance in the collection fund was in surplus at 31 March 2015 by £447,000, of which the Council's share was £61,000. The Council reported a collection rate of 96.13% for the year. This was below the target of 96.25% and prior year performance of 96.87%.</p> <p>The Council collected around £32.3 million of non domestic rates during the year which means under the business rate retention scheme the Council retains 40% of this, after deducting the £10.3 million for tariff payment and levy payable to the Government and the Council's share of £1 million provision for non domestic rate appeals. The collection rate for the year was 97.48%. This was above the target of 96.25%, however it was below prior year performance of 97.71%. A surplus of £1.258 million was achieved on the collection fund for the year, although the overall non domestic rates balance at 31 March 2015 is still in deficit by £1.789 million due to the charge for appeals in the prior year.</p> <p>The Council has set a balanced budget for 2015/16. It includes a savings requirement of £2.4m which it plans to achieve through a combination of efficiency savings of £1 million, income generation schemes of £500,000 and reduced contribution to reserves of £900,000. The budget indicates a number of financial risks however the Council is planning to manage these without needing to use reserves for recurring expenditure. The general fund balance is forecast at £4 million for 31 March 2016. This remains well above the Council's approved minimum level of £2 million. The 2015/16 budget also includes a £152,000 contingency allowance for unforeseen risks that may arise.</p>	

# USE OF RESOURCES

## Key economy, efficiency and effectiveness matters

RISK	WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
<b>FINANCIAL SUSTAINABILITY (continued)</b>	<p>Budget monitoring in 2015/16 to date shows a small overspend of £24,000 to June 2015. This relates to several areas of minor under and over spends which are being carefully monitored. The contingency fund currently stands at £132,000, to fund inflationary increases and any future unforeseen one off areas of expenditure during the year.</p> <p>The Medium Term Financial Strategy (MTFS) was updated and approved by Cabinet in July 2014 to cover the four year period to 2018/19. This identified a base funding gap of £2.7 million over the period, to be met by a combination of savings from the Council's SSDS programme, efficiency savings and procurement savings.</p> <p>The MTFS was updated again in July 2015 to cover the four year period to 2019/20. This indicates that the Council needs to make an average level of savings of £600,000 per annum over the life of the MTFS. Management has reported that the change programmes in place under the Council's DRIVE and SSDS will help to facilitate these savings.</p>	

Page 56

### USE OF RESOURCES 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 2015. We anticipate issuing an unqualified value for money conclusion.

# APPENDICES

# APPENDIX I: DEFINITIONS

TERM	MEANING
<b>The Council</b>	Eastbourne Borough Council
<b>Management</b>	<p>The persons responsible for achieving the objectives of the Council and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for:</p> <ul style="list-style-type: none"> <li>the financial statements (including designing, implementing, and maintaining effective internal control over financial reporting)</li> <li>putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them.</li> </ul>
<b>Those charged with governance</b>	<p>The persons with responsibility for assurance and the Council’s arrangements for governance, managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance. This includes overseeing the financial reporting process. Those charged with governance for the Council are the Audit and Governance Committee.</p>
<b>ISAs (UK &amp; Ireland)</b>	International Standards on Auditing (UK & Ireland)
<b>IAS</b>	International Accounting Standards
<b>IFRS</b>	International Financial Reporting Standards as adopted by the European Union
<b>Materiality</b>	The size or nature of a misstatement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable user of the financial statements would have been changed or influenced as a result of the misstatement.
<b>Code</b>	Code of Practice on Local Authority Accounting in the United Kingdom issued by CIPFA / LASAAC(Chartered Institute of Public Finance and Accountancy / Local Authority Scotland Accounts Advisory Committee)
<b>SeRCOP</b>	Service Reporting Code of Practice for Local Authorities issued by CIPFA / LASAAC
<b>SOLACE</b>	Society of Local Authority Chief Executives
<b>CIES</b>	Comprehensive Income and Expenditure Statement



## APPENDIX II: AUDIT DIFFERENCES

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

### CORRECTED AUDIT DIFFERENCES

Our audit identified one material presentational misstatement to the value of £4.391 million, where the write down of replaced components on refurbishment of council dwellings was classified as an impairment loss rather than a loss on derecognition of property, plant and equipment. Management has also corrected the financial statements for a number of other presentational misstatements and disclosures. There is no impact on the surplus on provision of services or the general fund balance.

All corrected amendments are detailed in the 'Key Audit and accounting Matters' section of this report.

### UNADJUSTED AUDIT DIFFERENCES

Page 59

Four unadjusted audit differences were identified during the audit and when combined with a brought forward misstatement from the prior year would increase the draft surplus on the provision of services in the CIES by £276,000 to £7.393 million (from £7.117 million). There are further unadjusted audit differences in the accounts of Eastbourne Homes Limited, as identified by their auditors, which impact on the Group Accounts. When combined with the unadjusted audit differences on the Council accounts, these would increase the surplus on the provision of services in the Group accounts by £199,000 to £6.753 million (from £6.554 million).

A schedule of uncorrected audit differences is included on the following pages, with misstatements recorded as factual misstatements, judgemental / estimation misstatements, or projected misstatements. We request that you correct these misstatements. Deliberate misstatement of known issues is not acceptable and identified misstatements should, where practicable, be corrected even if not material.

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

### IMPACT ON CURRENT YEAR REPORTED PERFORMANCE FOR PRIOR YEAR AUDIT DIFFERENCES

We have also separately reported the impact of the prior year misstatements and their impact on the current year performance.

These amounts remain misstatements with regard to reporting in year financial performance, but are not misstatements at the year end and cannot be corrected as these relate to previous years.

	£000
• Capital receipt relating to the building of Towner accounted for in 2014/15 that related to 2013/14	750
• Expenditure accounted for in 2014/15 rather than 2013/14 (extrapolated misstatement in prior year)	(63)

Overall, the impact of prior year misstatements on current year performance has increased the reported CIES surplus for 2014/15 by a net £687,000.

## APPENDIX II: AUDIT DIFFERENCES

### Unadjusted audit differences

UNADJUSTED AUDIT DIFFERENCES	£'000	INCOME AND EXPENDITURE		BALANCE SHEET	
		Dr £'000	(Cr) £'000	Dr £'000	(Cr) £'000
CIES surplus on the provision of services before adjustments	(7,117)				
Dr Council dwellings				61	
Cr Reversals of impairments in the CIES	(61)		(61)		
Cr Capital adjustment account					
Dr General Fund through Movement in Reserves Statement (to reverse CIES gain) *				61	
Cr Capital adjustment account					(61)
<i>Impact of brought forward misstatement relating to the revaluation increase calculation in the prior year (judgmental misstatement)</i>					
Dr Expenditure - Cultural and related services	47	47			
Dr Expenditure - Environmental and regulatory services	42	42			
Cr Revaluation reserve					(89)
Dr Capital adjustment account				89	
Cr General Fund through Movement in Reserves Statement (to reverse CIES loss) *					(89)
<i>Understatement of expenditure and revaluation reserve balance as a result of incorrect accounting for revaluations on four assets</i>					
Dr Short-term creditors with central government				237	
Cr Non domestic rates expenditure in CIES	(237)		(237)		
<i>Over accrual of the non domestic rates levy payable to DCLG (factual misstatement)</i>					
Dr Debtors with Central Government				105	
Cr Non-specific grants & contributions income	(105)		(105)		
<i>Under accrual of Section 31 grant for small business rate relief (factual misstatement identified by Council)</i>					

## APPENDIX II: AUDIT DIFFERENCES

### Unadjusted audit differences

UNADJUSTED AUDIT DIFFERENCES	£'000	INCOME AND EXPENDITURE		BALANCE SHEET	
		Dr £'000	(Cr) £'000	Dr £'000	(Cr) £'000
Dr Non domestic rates income in the CIES	38	38			
Cr Non domestic rates appeals provision					(38)
Dr Short term debtors for preceptors' share of increased Collection Fund deficit				57	
Cr Short term debtors for preceptors' share of non domestic rates appeals provision					(57)
Dr Collection fund adjustment account				38	
Cr General Fund through Movement in Reserves Statement (to reverse CIES loss) *					(38)
<i>£95,000 understatement of Collection Fund expenditure for under accrual of non domestic rates appeals provision (40% relates to the Council and 60% to preceptors) (judgmental misstatement)</i>					
<b>TOTAL UNADJUSTED AUDIT DIFFERENCES</b>	<b>(276)</b>	127	(403)	648	(372)
CIES surplus on the provision of services after adjustments	(7,393)				

IMPACT ON GENERAL FUND BALANCE	£'000
<b>General Fund balance before adjustments</b>	<b>(4,899)</b>
Adjustments to CIES above	(276)
<b>Adjustments via Movement in Reserves Statement *</b>	
Dr Reclassification of revaluation increases on Council dwellings	61
Dr Reclassification of loss on disposal of PPE	89
Dr Reclassification of collection fund deficit charged to the CIES	(38)
<b>General fund balance after adjustments</b>	<b>(5,063)</b>

#### UNADJUSTED DISCLOSURE MATTERS

The financial statements include a number of notes that are not material and should be removed, such as assets held for sale, inventories, provisions and agency arrangements.

## APPENDIX II: AUDIT DIFFERENCES

### Unadjusted audit differences: Group accounts

UNADJUSTED AUDIT DIFFERENCES	£'000	INCOME AND EXPENDITURE		BALANCE SHEET	
		Dr £'000	(Cr) £'000	Dr £'000	(Cr) £'000
CIES surplus on the provision of services before adjustments	(6,554)				
<i>Unadjusted audit differences relating to the Council only as listed above</i>	<b>(276)</b>	127	(403)	648	(372)
Dr Debtor provision				16	
Cr Other debtors					(48)
Dr Admin expenses	36	36			
Cr Creditor accruals and deferred income					(45)
Dr Interest payable	41	41			
<i>Unadjusted errors identified by the auditors of Eastbourne Homes Limited (judgemental misstatement)</i>					
<b>TOTAL UNADJUSTED AUDIT DIFFERENCES</b>	<b>(199)</b>	204	(403)	664	(465)
CIES surplus on the provision of services after adjustments	(6,753)				

## APPENDIX III: MATERIALITY

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 or actual misstatements. Materiality may relate to both quantitative and qualitative matters, and for quantitative considerations the numerical level materiality is assessed at may be different for different information in the financial statements. Nevertheless, within this context, we provide an indication of the quantitative levels used for planning purposes. Materiality is re-assessed every year in the context of authoritative audit practice.

### MATERIALITY

Planning materiality	£2,000,000
Final materiality	£2,000,000
Clearly trivial threshold	£40,000

Planning materiality of £2,000,000 was based on 2% of gross expenditure in the draft CIES, excluding non-recurrent expenditure.

We have no reason to revise our final materiality level.

Triviality was based on 2% of materiality.

# APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
<b>CONTROL ENVIRONMENT</b>				
<p><b>Journals</b></p> <p>The Council's financial policies only require formal authorisation for journals over £100,000. Internal Audit's testing of the financial ledger system in the year noted that there were 1,020 journals under £100,000 in the financial year to 12th December 2014. Insufficient review of journals below the threshold for formal authorisation increases the risk of undetected fraud and error.</p>	<p>Management should implement Internal Audit's recommendation to implement a check on journals under £100,000.</p>	<p>Agreed. A monthly 'sense' check will be carried out on who completes journals and the volumes.</p>	<p>Financial services manager</p>	<p>December 2015</p>
<p><b>Non current asset disposals</b></p> <p>Our testing of property, plant and equipment disposals identified three assets which were held at nil net book value and treated as disposals although these assets are still held by the Council. The total cost of these assets is £1.040 million. The Council's records of all assets held will not be complete if assets are removed from the fixed asset register before they are formally disposed of or scrapped.</p>	<p>Management should carry out an annual review of fully depreciated assets, including circularisation of departments where necessary, to determine whether fully depreciated assets:</p> <ul style="list-style-type: none"> <li>• should be removed from the fixed asset register if they are no longer owned by the Council</li> <li>• should be written down on a gross basis if no longer in use</li> <li>• should be revalued if they are in use and have a material value to the Council.</li> </ul>	<p>Agreed. An annual review will be carried out.</p>	<p>Senior accountant</p>	<p>June 2016</p>
<p><b>Access to the fixed asset register</b></p> <p>The fixed asset register is maintained through an Excel document that is not password protected and does not provide trails of changes. In the absence of appropriate access controls over the fixed asset register there is a risk of unauthorised changes that could impact on the accounts.</p>	<p>The Council should implement password access controls for the fixed asset register.</p>			

## APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
<b>CONTROL ENVIRONMENT</b>				
<p><b>Employment taxes - Personal Service Companies</b></p> <p>The Council uses a number of workers who are supplied by their own personal service companies (PSCs). PSCs are paid by accounts payable and there is no system in place for checking that companies are registered as such at Companies House, are registered for VAT, are invoicing the Council in the name of the PSC and that the Council are making payments direct to the PSC.</p> <p>Where a worker is supplied by a PSC then, under the IR35 provisions, any PAYE/NICs due because the worker would have been deemed to be a Council employee but for the PSC, are a liability of the PSC rather than the Council.</p> <p>Whilst the PAYE/NIC risk to the Council is small this only applies if a company exists and payments are made direct by the Council to the company.</p>	<p>Management should implement a system for checking registration details for PSCs used and ensure that payments are made to PSCs rather than any individuals of the PSC.</p>	<p>Agreed. A check has been carried out and a future procedure will be put in place.</p>	<p>Financial services manager</p>	<p>December 2015</p>
<b>GOVERNANCE REPORTING</b>				
<p>Our review of the foreword in the draft financial statements found that it did not include information on the required levels of savings in the medium term and how they are expected to be achieved, and key performance information against strategic objectives.</p>	<p>The forward to the financial statements should be extended in line with best practice requirements to include information on savings targets and key performance indicators.</p>	<p>Agreed. This will be done next year.</p>	<p>Financial services manager</p>	<p>June 2016</p>

## APPENDIX V: STATUTORY AND PROFESSIONALLY REQUIRED COMMUNICATIONS

COMMUNICATION REQUIRED	DATE COMMUNICATED	TO WHOM	METHOD
Accounting practices, accounting policies, estimates and judgements and financial statement disclosures (ISA 260)			Financial statements section of this report
Significant difficulties encountered during the audit (ISA 260)		No issues	
Significant matters discussed or subject to correspondence with management (ISA 260)		No issues	
The final draft of the representation letter (ISA 260)		Appendix VI	
Independence (ISA 260)			Independence section of this report
Fraud and illegal acts (ISA 240)		No issues	
Non compliance with laws and regulations (ISA 250)		No issues	
Significant deficiencies in internal control (ISA 265)			Control environment section of this report
Misstatements, whether or not corrected by the entity (ISA 450)		Appendix II	
Significant matters in connection with related parties (ISA 550)		No issues	
Events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (ISA 570)		No issues	
Matters relating to the audit of the group (ISA 600)			Financial statements section of this report
Expected modifications to our audit report or inclusions of emphasis of matter / other matter (ISA 705 / 706)		No issues	
Material inconsistencies with other information in documents containing audited financial information (ISA 720)		No issues	
Objections from the public or exercise of statutory powers under the Audit Commission Act 1998		No issues	



# APPENDIX VI: DRAFT REPRESENTATION LETTER

TO TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP  
55 Baker Street  
London  
W1U 7EU

23 September 2015

Dear Sirs

## **Financial statements of Eastbourne Borough Council for the year ended 31 March 2015**

We confirm that the following representations given to you in connection with your audit of the Council's financial statements (the 'financial statements') for the year ended 31 March 2015 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Chief Finance Officer has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2011 and Statement of responsibilities of auditors and of audited bodies local government (March 2010) issued by the Audit Commission, and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2015 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA /LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and for making accurate representations to you.

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2011, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the annual governance statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

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

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

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

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

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

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

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

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

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

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

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

(a) Pension fund assumptions

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

- |   |      |
|---|------|
| • Rate of increase in salaries  | 4.0% |
| • Rate of increase in pensions / RPI  | 2.1% |
| • Rate for discounting scheme liabilities   | 3.1% |
| • Take up option to convert the annual pension into retirement grant- pre 31 March 2008 | 50%  |
| • Take up option to convert the annual pension into retirement grant- post April 2008   | 75%  |

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

(b) Valuation of housing stock

We are satisfied that 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 value appointed by the Council to provide this information.

We confirm that the indices applied to council dwellings, as provided by the valuer, are reasonable and consistent with our knowledge of the business and current market prices. These rates are:

- 0.4% decrease in 2011/12
- 1.7% increase in 2012/13
- 4.2% increase in 2013/14
- 7.3% increase in 2014/15

(c) Carrying value of land and buildings

We are satisfied that the carrying value of other land and buildings is materially consistent with the fair value at 31 March 2015. We confirm that no further adjustments are required to those assets that were last revalued in April 2011.

(d) Non-domestic rates appeals provision

We are satisfied that the provision recognised for non-domestic rates appeals is materially correct, and the calculation of historical appeals are consistent with those advised to me by the Valuation

Office Agency. We confirm that the successful rates applied to outstanding appeals as at 31 March 2015 is consistent with our knowledge of the business.

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

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

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

After making appropriate enquiries of other members of the Council and other officers regarding disclosure of information to you as auditors, we confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware.

Yours faithfully

**Alan Osborne**  
**Chief Finance Officer**  
23 September 2015

**Councillor Swansborough**  
**Chair of the Audit and Governance Committee**

**Signed on behalf of the Audit and Governance Committee**  
23 September 2015

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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**BODY:** **AUDIT AND GOVERNANCE COMMITTEE**  
**DATE:** **23 September 2015**  
**SUBJECT:** **Statement of Accounts 14/15**  
**REPORT OF:** **Financial Services Manager**

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**Ward(s):** All

**Purpose:** To agree the audited accounts for 2014/15 under powers delegated by the Council.

**Decision Type** Key decision

**Contact:** Pauline Adams, Financial Services Manager.  
Telephone Number 01323 415183

**Recommendations:** Members are asked to -

- i) Approve the final audited accounts for 2014/15.
- ii) Agree the action taken in respect of unadjusted audit differences identified by External Audit.
- iii) Note the comments on the significant deficiencies in the Control Environment
- iv) Agree delegated authority to the Chief Finance Officer to make amendments to the Statement of Accounts.

## **1.0 Introduction**

**1.1** The Accounts and Audit Regulations 2011, the Audit Commission Act 1998, the Code of Audit Practice (issued by the Audit Commission) and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain (the Code) set out the requirements for the production and publication of the annual Statement of Accounts.

**1.2** The regulations require that an appropriate body should approve the audited Statement of Accounts after they have been certified by the Chief Financial Officer within six months of the financial year end i.e. by 30 September.

**1.3** The Committee noted the draft accounts for 2014/15 at its meeting on 24 June 2015.

## **2.0 Audit of Accounts**

**2.1** BDO has now issued the draft ISA260 Annual Governance Report which is included as a separate report to this committee.

**2.2** BDO has indicated that subject to satisfactory completion of the outstanding work it is anticipated that an unqualified audit opinion on both this Council's accounting statements and the group accounting statements will be issued. The opinion is expected to be given before the statutory deadline of 30 September.

## **3.0 Key issues arising from the audit.**

**3.1** A number of changes have been made to the accounts since the previous report in June, these are all of an accounting technical nature and do not affect the overall balances on the General Fund, HRA, Collection Fund or Reserves.

**3.2** A full list of all the corrected and uncorrected audit differences is given in the body and at appendix ii of BDO's Report.

**3.3** Several disclosure notes were amended to improve the clarity of the accounts; these had been prepared on the same basis as the 2013/14 statement and previously accepted by audit. None of the changes are of a material nature.

**3.4** Members are asked to confirm the following action on the following unadjusted audit differences:

1. Impact of brought forward misstatements relating to the revaluation increase calculated in prior year of £61k. This was the estimated difference in valuation of Council Dwellings as the compound effect of increases was not applied. The net book value of Council Dwellings is £132m. This has no effect on the final outturn.
2. Incorrect recognition of revaluation losses in the Revaluation Reserve instead of the Comprehensive Income & Expenditure Statement. This relates to the revaluation of four assets and has resulted in an understatement of £89,000 of expenditure. This has no effect on the final outturn.
3. Over accrual of non domestic rates levy payable to DCLG – (£237k) – an error was made when calculating the levy payable which should have been 50% of the surplus was taken as 100%. This taken together with the item below is considered to be immaterial and will be accounted for in 2015/16.
4. Over accrual of section 31 grant due for small business rate – (£105k) – the figure for the grants due was taken in

error from the NNDR return to DCLG, which did not take into account an adjustment for tariff payment.

5. Under accrual for non-domestic appeals provision - £38k- an error was made on the spreadsheet used to do the calculation. This is considered immaterial and will be adjusted for in 2015/16.

**3.5** The following four issues have been raised as having significant deficiencies in the Control Environment:

1. The implementation of control checks on journals under £100,000 – this has been discussed with audit on many occasions. The majority of journals are systems generated as postings from other systems such as payroll and income management and as such are automatically posted without requiring authorisation. The resources required to carry out a check on every journal are high and therefore the working practice is to authorise only journals that are manually generated over £100,000.
2. Assets should be retained in fixed asset register if still held. One asset, with a total cost of £287k, which had been depreciated to nil was removed from the fixed asset register. This should be re-valued if there is any remaining material value. Agreed - this will be completed in 2015-16.
3. Implement passwords to access fixed asset register; now implemented.
4. Checking registration details for Personal Service Companies – agreed to implement. Officers are currently working at setting up new procedures.

**4.0** **Conclusions**

**4.1** The 2014/15 Statement of Accounts has been amended since presented to the June meeting of this committee. The changes have been of an accounting technical nature and have had no effect on the overall balances of the Council.

**4.2** An unqualified audit opinion is expected to be issued by 30 September by BDO.

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**Background Papers:**

The Background Papers used in compiling this report were as follows:

Final Accounts working papers 2014/15  
BDO Annual Governance Report 2014/15

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