

# Audit and Governance Committee

**MEMBERS:** Councillor Swansborough (Chairman); Councillor Tester (Deputy-Chairman); Councillors Choudhury, di Cara, Holt, Metcalfe, Robinson and Taylor

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## Agenda

**1 Minutes of the meeting held on 20 September 2017.** (Pages 1 - 4)

**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 30 September 2017.** (Pages 5 - 14)

Report of Audit Manager.

**8 Risk management.** (Pages 15 - 26)

Report of Audit Manager.

**9 Treasury management mid-year review report.** (Pages 27 - 34)

Report of Senior Accountant.

## 10 Annual Audit Letter (year end 31 March 2017). (Pages 35 - 50)

**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).

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## Further Information

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

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Wednesday, 20 September  
2017  
at 6.00 pm



## Audit and Governance Committee

Present:-

**Members:** Councillor Swansborough (Chairman), Councillor Tester (Deputy-Chairman) and Councillors Choudhury, di Cara, Metcalfe, Robinson and Taylor

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### **8 Minutes of the meeting held on 21 June 2017.**

The minutes of the meeting held on 21 June 2017 were submitted and approved and the Chairman was authorised to sign them as a correct record.

### **9 Apologies for absence.**

An apology for absence was reported from Councillor Holt.

### **10 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.**

None were declared.

### **11 Data Protection Legislation Changes.**

The Committee considered the report of Lawyer and Data Protection Officer advising them of the imminent changes to UK data protection legislation and how the Council was preparing for the higher standards of data privacy set by the new regime.

European Parliament had adopted a new General Data Protection Regulation and would come into force across all EU member states in May 2018. The UK would continue to apply the regulations post Brexit.

Non-compliance could expose the Council to significant financial penalties and reputational damage.

The Committee expressed its thanks to the Lawyer and Data Protection Officer for their ongoing work to ensure the Council would achieve compliance with the new legislation.

**Resolved: (Unanimous)** (i) That the Committee note the key features of the General Data Protection Regulation and the proposed Data Protection Bill.

(ii) That the Committee note the measures that Eastbourne Borough Council is taking to achieve compliance with the new legislation within the necessary timeline.

## **12 Code of Corporate Governance.**

The Committee considered the report of the Head of Audit and Counter Fraud regarding the updated Code of Corporate Governance, appended to the report.

The updated code would ensure that the Council followed best practice, as set out in the Delivering Good Governance in Local Government Framework which was published in April 2016.

**RESOLVED: (Unanimous):** That the Council be recommended to approve the updated draft Code of Corporate Governance, attached as Appendix A to the report.

## **13 Statement of Accounts 2016/17.**

The Senior Accountant presented the annual accounts for 2016/17, appended to the covering report.

A list of corrected and uncorrected audit differences were outlined in the report and Appendix 2 of BDO's Annual Governance Report. Although no material misstatements were identified during the audit at the time the report was published, the Committee was advised that the Council were required to make a prior year adjustment of £26.6 million and adjustment of £4.185 million to 2016/17. These changes did not however affect the General Fund.

Although no significant deficiencies in the Control Environment for 2016/17, BDO had identified three other deficiencies. Full details of the observations, implications, recommendations and management response was given at appendix 3 of BDO's Annual Governance Report.

BDO had indicated that an unmodified audit opinion on the Council's accounting and group accounting statements would be issued before the statutory deadline of 30 September 2017.

The Committee expressed its thanks to the Chief Finance Officer and the finance team for their significant efforts in producing the accounts.

**RESOLVED: (Unanimous)** (1) That the final audited accounts for 2016/17 be approved.

(2) That the action taken in respect of the unadjusted audit differences identified by External Audit be agreed.

(3) That the comments on the significant deficiencies in the Control Environment be noted.

(4) That delegated authority be given to the Chief Finance Officer to make minor amendments to the Statement of Accounts.

#### **14 Annual Governance Report 2016/2017.**

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

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

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

Subject to the resolution of outstanding matters set out in the report, BDO anticipated issuing an unmodified opinion on the financial statements for the year ended 31 March 2017.

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

**Resolved: (Unanimous)** That the Annual Governance Report for 2016/17 be noted.

#### **15 Internal Audit Report to 30th June 2017.**

The Committee considered the report of the Internal Audit Manager regarding a summary of the activities of Internal Audit for the first quarter of the year.

A list of all final audit reports issued from 1 April 2017 to 30 June 2017 and the level of assurance attained were detailed in the report. None of the reports had been given an assurance level of inadequate.

Audit work carried out to date against the audit plan to the end of June 2017 was set out in appendix A. Main points from the appendix were summarised in the report and related to "IT Contract and Change Controls".

Further information on reports issued in final during the year with an assurance level below "Performing Well" was set out in Appendix B, with any issues highlighted in the reviews which informed the assurance level given. The Committee was reassured that this status was the assurance level given at the time the final report was issued and did not reflect recommendations that had been addressed.

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

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

The current contract with the Council's external auditors would end with the final accounts for 2017/18. The provisions of the Local Audit and Accountability Act 2014 in relation to local appointment of auditors would

therefore apply and a new external auditor would audit the accounts from 2018/19.

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

**16 Risk Management.**

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

The Strategic Risk Register had been taken to Corporate Management Team (CMT) on 5 September 2017 for the regular quarterly review and the updated register was appended to the report.

Changes to risk SR\_005 to reflect the changes in the Joint Transformation Programme and SR\_008 in light of the Grenfell fire tragedy were detailed in the report.

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

The meeting closed at 7.12 pm

**Councillor Swansborough**  
**(Chairman)**

# Agenda Item 7

<b>Body:</b>	AUDIT AND GOVERNANCE COMMITTEE
<b>Date:</b>	29 NOVEMBER 2017
<b>Subject:</b>	Internal Audit Report to 30 <sup>TH</sup> SEPTEMBER 2017
<b>Report Of:</b>	Audit Manager
<b>Ward(s)</b>	All
<b>Purpose</b>	To provide a summary of the activities of Internal Audit for the first quarter of the year 1 <sup>st</sup> April 2017 to 30 <sup>th</sup> September 2017.
<b>Recommendation(s):</b>	That the information in this report be noted and members identify any further information requirements.
<b>Contact:</b>	Jackie Humphrey, Audit Manager, Telephone 01323 415925 or internally on extension 5925. E-mail address jackie.humphrey@lewes-eastbourne.gov.uk

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## 1.0 Introduction

- 1.1 The work of Internal Audit is reported on a quarterly basis to demonstrate work carried out compared to the annual plan and to report on the findings of audit reports issued since the previous meeting of the committee.
- 1.2 The annual audit plan for 2017/18 was agreed by the Audit and Governance Committee in March 2017.

## 2.0 Review of work carried out in the first quarter of the financial year 2017/18.

- 2.1 A list of all the audit reports issued in final from 1<sup>st</sup> April 2017 to 30<sup>th</sup> September 2017 is as follows:

Main Accounting (Annual 2016/17)	Performing Excellently
Payroll (Annual 2016/17)	Performing Adequately
Security of Data Movement	Performing Adequately
IT Contract	Performing Well
Change Controls	Performing Well
VAT	Performing Excellently
Box Office Computer System	Performing Excellently
Cafi Debtors	Performing Excellently
Engineering	Performing Well
Insurances	Performing Well
Building Health and Safety	Performing Adequately

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

**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 No reports have been issued with an assurance level of inadequate in this quarter.

2.3 Appendix A shows the work carried out against the annual plan to the end of June 2017. The following comments explain the main points to be noted from the table:

- IT Contract and Change Controls – when the draft audit plan was put together in February 2017, it was not known whether these could be started in 16/17 and therefore they were carried forward into the 17/18 plan. However, these were started in the last financial year and were just completed in the first quarter of 17/18. The unused allocated time will be used to carry out other audits to be considered later in the year.
- It will be noted that only three reports have been issued in final during the second quarter. This is due to an internal auditor leaving at the beginning of June and a replacement only taking up the post at the end of July. The new auditor then had to be trained.

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

2.5 The committee is reminded that these are the assurance levels that were given at the time the final report was issued and do not reflect recommendations that have been addressed. In order to clarify this a column has been added to show the assurance level given in the latest follow up carried out.

2.6 Where follow ups of reviews given an Inadequate assurance level show recommendations are not being addressed, the outstanding recommendations, and client comments from the report, will be listed at Appendix C. It should be noted that the recommendations listed were outstanding at the time of the last follow up review. If they have been addressed since this time this will not be noted or reported until the next follow up review is carried out.

- 2.7 However, there is no appendix C attached to this report there are no outstanding actions relating to audits that were issued with an "inadequate" assurance level.

### **3.0 Corporate Fraud**

- 3.1. The Counter Fraud Manager left on 6<sup>th</sup> October. An internal applicant was interviewed on 13<sup>th</sup> September and was appointed to the post. The member of staff comes from Eastbourne's Case Management team and took up the post on 16<sup>th</sup> October. Handover sessions were held before the previous manager left.
- 3.2 Work continues on Council Tax Reduction Cases where there had been no changes reported for two or more years. To date, 183 cases have been reviewed resulting in £26,096 in weekly incorrect benefit cancelled and £51,776 in Council Tax excess being identified. During this exercise errors and weaknesses in working practices have been identified and fed back to the relevant managers.
- 3.3. During the second quarter 13 Right to Buy applications were checked by the team and five were withdrawn or cancelled.
- 3.4. 177 matches produced by NFI were checked during the quarter. None were found to be either errors or frauds.
- 3.5. The two year contract with Housing Partners has come to an end. Owing to issues with the quality of data held on Orchard and the issues with extracting data from it the contract has not been renewed. However, this decision will be reviewed when the new Housing Management System has been fully implemented.
- 3.6. Appendix D shows the work of the Corporate Fraud team for the first half of the year. This shows that the cost of the team for the first half of the year was 3.62% of the savings that they identified.

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

- 4.1. Work has continued in looking at how other Hubs operate data matching and mining functions. Visits have been made to Kent Investigation Network and Surrey to look at the systems that they use and how well they are operating. A presentation has also been given by a company who provide data matching and mining services. A report will be presented to the Hub with proposals for consideration by the Hub members and for recommendations to the Board.

### **5.0 Consultation**

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

## **6.0 Resource Implications**

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

## **7.0 Other Implications**

- 7.1 None

## **8.0 Summary of Options**

- 8.1 None

## **9.0 Recommendation**

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

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

**Background Papers:**

			Planned days	Actual days	Reason for Variance
<b>ANNUAL REVIEWS</b>	Benefits	Governance	15		
	Cash and Bank	Governance	10		
	Council Tax	Governance	10		
	Creditors	Governance	15		
	Debtors	Governance	15		
	Housing Rents	Governance	15		
	Main Accounting	Governance	10	0.3	Completion of 16/17 review
	NNDR	Governance	10		
	Payroll	Governance	10	0.3	Completion of 16/17 review
	Treasury Management	Governance	5		
	IT	Governance	4		
	Theatres Reconciliation	Governance	5		
	Claims work		100	69.7	
			<b>224</b>	<b>70.3</b>	
<b>Page 9</b>	Contingency		38	4.1	
	Special Investigations/advice		40	15.3	
	Follow ups re audits carried out in previous year		30	13.4	
				<b>108</b>	<b>32.8</b>
<b>CARRY FORWARDS FROM 16/17 PLAN</b>	IT Contract	IT	10	<b>0.2</b>	Completed - managed to start in 16/17
	Change Controls	IT	10	<b>0.3</b>	Completed - managed to start in 16/17
	VAT	Operational	8	<b>5.1</b>	Completed
	Private Housing Grants	Operational	8	<b>3.2</b>	Ongoing
	Engineering	Operational	10	<b>12</b>	Completed
	Box Office Computer System	Operational	5	<b>5.2</b>	Completed
			<b>51</b>	<b>26</b>	
<b>REQUESTS</b>	Corporate Complaints	Operational	10	2.9	Postponed to later in the year
			<b>10</b>	<b>2.9</b>	
<b>HIGH RISK</b>	Contract Managing and Monitoring	Operational	20	15	Ongoing
			<b>20</b>	<b>15</b>	

Please turn over

			Planned days	Actual days	Reason for Variance
<b>MEDIUM RISK REVIEWS</b>	W360	IT/Operational	15	0.7	
	Asset Management	Operational	15	1.6	
	Cafi Debtors	Operational	10	10.1	Completed
	Cafi GL	Operational	4	5.4	Ongoing
			<b>44</b>	<b>17.8</b>	
<b>LOW RISK</b>	Insurances	Operational	10	4.7	Completed
	Corporate Strategy/Priorities	Operational	10	6.2	Ongoing
	Development Control/CIL	Operational	15	3.6	Ongoing
	Partnerships	Operational	15		
			<b>50</b>	<b>14.5</b>	
<b>JOINT AUDITS</b>	RIPA	Operational	2		
	Safeguarding	Operational	10	2.9	Ongoing
	Joint Ventures	Operational	2		
			<b>14</b>	<b>2.9</b>	
<b>PLAN TOTAL</b>			<b>521</b>	<b>179.3</b>	

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

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

**Quarters -1-2**

<b>AUDIT REVIEW</b>	<b>ASSURANCE LEVEL</b>	<b>ISSUES NOTED</b>	<b>Level at follow up</b>
Payroll (Annual 16-17)	Adequate	<ul style="list-style-type: none"> <li>• Authorised signatory list requires updating</li> </ul>	Annual audits not subject to follow ups
Security of Data Movement	Adequate	<ul style="list-style-type: none"> <li>• No central register of third parties who can access or are sent personal data</li> <li>• Incident Management Policy is overdue for review</li> <li>• No central register of Data Sharing Agreements</li> </ul>	Adequate  Further review to be carried out in January.
Buildings Health and Safety	Adequate	<ul style="list-style-type: none"> <li>• Health and safety policies and documents are overdue for review and need to be aligned between the two Councils.</li> <li>• Fire risk assessments for Council buildings are always regularly reviewed and updated.</li> <li>• Evacuation procedures require updating</li> <li>• A full review of the adequacy of CCTV needs to be undertaken.</li> </ul>	Follow up due in November

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	QUARTER ONE				QUARTER TWO				QUARTER THREE				QUARTER FOUR				YEAR TOTAL		
	Cases	Income	Savings	Cost of Corp Fraud	Cases	Income	Savings	Cost of Corp Fraud	Cases	Income	Savings	Cost of Corp Fraud	Cases	Income	Savings	Cost of Corp Fraud	Income	Savings	Cost of Corp Fraud
<b>NATIONAL FRAUD INITIATIVE</b>																			
Number of cases open	12				14														
Number of cleared cases	631				856														
Number of errors identified	3				3														
Number of frauds identified	0				0														
Overpayments identified			1,818.81															1,818.81	
<b>HOUSING BENEFIT MATCHING SERVICE</b>																			
Number of open matches	2																		
Number of closed matches	123																		
Overpayments identified			5,637.51															5,637.51	
Weekly incorrect benefit identified			16,049.60															16,049.60	
<b>OTHER INVESTIGATIONS</b>																			
Number of open investigations					147														
Number of closed investigations	59				30														
Overpayments identified			5,879.34				2,531.15											8,410.49	
Weekly incorrect benefit identified			36,702.27				2,612.80											39,315.07	
Removal of SPD saving			894.79				5.72											900.51	
Increase in Council Tax liability			1,457.08				24.51											1,481.59	
Housing Intervention			36,000.00															36,000.00	
CTR Excess			1,159.68				52,028.26											53,187.94	
CTR WIB			2,940.16				26,367.36											29,307.52	
Income from court costs																	0.00		
Income from Adpen collection		681.27				590											1,271.27		
Right To Buy interventions			1,232,050.00				390,000.00											1,622,050.00	
<b>TOTALS</b>		<b>£681.27</b>	<b>£1,340,589.24</b>	<b>£30,857.02</b>		<b>£590.00</b>	<b>£473,569.80</b>	<b>£34,854.00</b>	<b>0</b>	<b>£0.00</b>	<b>£0.00</b>		<b>0</b>	<b>£0.00</b>	<b>£0.00</b>		<b>£1,271.27</b>	<b>£1,814,159.04</b>	<b>£65,711.02</b>

Cost of team as a percentage of the savings identified

3.62

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# Agenda Item 8

<b>Body:</b>	AUDIT AND GOVERNANCE COMMITTEE
<b>Date:</b>	29 <sup>th</sup> November 2017
<b>Subject:</b>	Risk Management
<b>Report Of:</b>	Audit Manager – (Eastbourne)
<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, Audit Manager, Telephone 01323 415925 or internally on extension 5925. E-mail address <a href="mailto:jackie.humphrey@lewes-eastbourne.gov.uk">jackie.humphrey@lewes-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 (CMT) on 31<sup>st</sup> October 2017 to consider whether any changes were required.  
General Data Protection Regulation.
- 2.2. It was reported to CMT that the new General Data Protection Regulation come into force in May 2018 and that there is a large amount of work to be undertaken in preparation and this is already underway. This includes ensuring that all privacy notices are updated, ensuring that all systems/processes allow for documents to be found and destroyed in line with the Retention and Disposal Policy and to ensure that there is awareness of the new regulations across the authority. Internal Audit are just beginning a piece of work which will act as a gap analysis of progress against the regulation.
- 2.3. The Audit Manager therefore suggested that in the meantime the likelihood of risk SR\_008 (Failure to meet regulatory or legal requirements) be increased.

- 2.4. This was agreed by CMT and the likelihood has been raised from 1 – Unlikely to 2 – Possible. This will be reviewed again when the Internal Audit review is complete.

### Commercial Enterprises

- 2.5. The Audit Manager also suggested to CMT that there is a risk involved with the Council moving into setting up commercial enterprises. The Audit Manager felt that this did not fit comfortably under any of the current risks in the register. It was therefore suggested that a new risk be added to the register and proposed wording was presented.
- 2.6. The commercial enterprises referred to are companies which are fully controlled by the Council. These are:
- Eastbourne Homes Limited
  - Eastbourne Housing Investment Company
  - South East Independent Living Limited
  - Aspiration Homes (EBC 50% and LDC 50%)
  - Eastbourne Downs Water Company (dormant)
  - Eastbourne Infrastructure Company (not yet incorporated)
- 2.7. CMT discussed the suggestion of a new risk and the proposed wording. The addition of the risk was agreed with slight amendment to the wording. The new risk can be seen at SR\_009 on the attached risk register.

## **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 the new risk and amended scoring 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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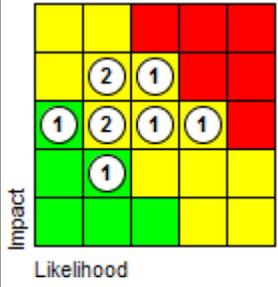
# **STRATEGIC RISK REGISTER**

**November 2017**



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



<b>LIKELIHOOD</b>	<b>IMPACT</b>
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	Likelihood	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.	4	4	16	<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 Joint Transformation Programme that can respond to changes in the environment.</p>	Jackie Humphrey	2	3	6	Amber	06-Feb-2018
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 Joint Transformation Programme that can respond to changes in the environment.</p>	Jackie Humphrey	4	3	12	Amber	06-Feb-2018
SR_003	Unforeseen socio-economic and/or demographic shifts creating	<p>1. Unsustainable demand on services.</p> <p>2. Service failure.</p>	2	4	8	1. Grounding significant corporate decisions based on up to date, robust, evidence base. (e.g. Census; Corporate Plan Place	Jackie Humphrey	2	3	6	Amber	01-Feb-2018

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
	significant changes of demands and expectations.	3. Council structure unsustainable and not fit for purpose. 4. Heightened likelihood of fraud.				Surveys; East Sussex in Figures data modelling). 2. Ensuring community and interest group engagement in policy development (e.g. Neighbourhood Management Schemes; Corporate Consultation Programme)						
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	1. Joint Transformation programme to increase non-financial attractiveness of EBC to current and future staff. 2. Appropriate reward and recognition policies reviewed on a regular basis. 3. Review of organisation delivery models to better manage the blend of direct labour provision. Pursuit of mutually beneficial shared service arrangements.	Jackie Humphrey	2	2	4	Green	01-Feb-2018
SR_005	Not being able to sustain a culture that supports organisational objectives and future	1. Decline in performance. 2. Higher turnover of staff.	4	4	16	1. Deliver a fit for purpose organisational culture through Joint Transformation programme. 2. Continue to develop our	Jackie Humphrey	3	4	12	Amber	01-Feb-2018

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
	development.	3. Decline in morale. 4. Increase in absenteeism. 5. Service failure 6. Increased possibility of fraud.				performance management capability to ensure early intervention where service and/or cultural issues arise.  3. Continue to develop communications through ongoing interactions with staff.						
SR_006	Council prevented from delivering services for a prolonged period of time.	1. Denial of access to property 2. Denial of access to technology/information 3. Denial of access to people	3	5	15	1. Regularly reviewed and tested Business Continuity Plans. 2. Regularly reviewed and tested Disaster Recovery Plan. 3. Joint Transformation programme has created a more flexible, less locationally dependent service architecture. 4. Adoption of best practice IT and Asset Management policies and procedures.	Jackie Humphrey	2	4	8	Amber	01-Feb-2018
SR_007	Council materially impacted by the medium to long term effects of	1. Service profile of the Council changes materially as a result of the impact of the event.	3	5	15	1. Ongoing and robust risk profiling of local area (demographic and geographic).	Jackie Humphrey	1	3	3	Green	01-Feb-2018

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
	an event under the Civil Contingencies Act	2. Cost profile of the Council changes materially as a result of the impact of the event.				2. Review budget and reserves in light of risk profile.  3. Working in partnership with other public bodies.						
SR_008	Failure to meet regulatory or legal requirements	1. Credibility of the Council is negatively impacted.  2. Deterioration of financial position as a result of regulatory activity/penalties.  3. Deterioration of service performance as a result of regulatory activity/penalties.  4. Increased probability of prosecutions and compensation claims as a result of inadequate management of Health and Safety duties.  5. Possibility of fraud and bribery.	3	4	12	1. Developing, maintaining and monitoring robust governance framework for the Council.  2. Building relationships with regulatory bodies.  3. Develop our Performance Management capability to ensure early intervention where service and/or cultural issues arise.  4. Take forward the recommendations of the CIPFA Asset Management report to ensure we meet regulatory/legal requirements regarding the management of property.  5. Ensure there is full understanding the impact of new legislation (e.g. Localism Act).	Jackie Humphrey	2	4	8	Amber	01-Feb-2018

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		<p>6. Ensure compliance 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> <p>7. JTP Board considers activity mapping, ensuring that it covers regulatory/legal and main financial matters.</p> <p>8. Ensure that fire risk regulations are adhered to and that Fire Risk Assessments are regularly reviewed.</p>						
SR_009	Commercial enterprises that are fully controlled by the authority do not deliver financial expectations or do not meet governance requirements.	<p>1. Unfamiliar activity with staff inexperienced in this area</p> <p>2. Council finances affected if projects do not meet financial expectations.</p> <p>3. Reputational damage if governance procedures are inadequate.</p> <p>4. Failure to abide by company law.</p>	3	3	9	<p>1. Hire suitably qualified/experienced staff to give legal and specialist support.</p> <p>2. Appoint Head of Commercial Activities.</p> <p>3. Ensure that projects meet core principles.</p> <p>4. Up or re-skill staff to maximise commercial opportunities.</p> <p>5. Ensure governance processes are set up and adhered to.</p>	Jackie Humphrey	3	3	9	Amber	01-Feb-2018

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**BODY:** **AUDIT & GOVERNANCE COMMITTEE**  
**DATE:** **29 November 2017**  
**SUBJECT:** **Treasury Management Mid-year Review Report**  
**REPORT OF:** **Chief Finance Officer**

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**Ward(s):** All

**Purpose:** To provide Members with a mid year review of treasury management activity.

**Contact:** Janet Martin, Senior Accountant  
Telephone Number 01323 415983.

**Recommendations:** Members are asked to note the contents of this report.

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## **1.0 Introduction**

- 1.1 Treasury Management is the management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
- 1.2 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management was adopted by Cabinet on 3 February 2016 and requires regular reports to this committee on the Treasury Management activities undertaken.
- 1.3 This mid year report covers the following:
- An economic update for the first six months of 2017/18;
  - A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
  - The Council's capital expenditure (prudential indicators);
  - A review of the Council's investment portfolio for 2017/18;
  - A review of the Council's borrowing strategy for 2017/18;
  - A review of any debt rescheduling undertaken during 2017/18;
  - A review of compliance with Treasury and Prudential Limits for 2017/18.

## **2.0 Economic Update**

- 2.1 After the UK economy surprised the market with strong growth in 2016, growth in 2017 has been disappointingly weak; quarter 1 came in at only +0.3% (+1.7% y/y) and quarter 2 was +0.3% (+1.5% y/y) which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. The main reason for this has been the sharp

increase in inflation, caused by the devaluation of sterling after the referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 75% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year. However, this sector only accounts for around 11% of GDP so expansion in this sector will have a much more muted effect on the average total GDP growth figure for the UK economy as a whole.

The Monetary Policy Committee (MPC) meeting of 14 September 2017 surprised markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise. The Bank of England Inflation Reports during 2017 have clearly flagged up that they expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years time. Inflation actually came in at 2.9% in August, (this data was released on 12 September), and so the Bank revised its forecast for the peak to over 3% at the 14 September meeting MPC.

On 2<sup>nd</sup> November the MPC increased Bank Rate to 0.5%. The big question after that will be whether this is a one off increase or the start of a slow, but regular, increase in Bank Rate. As at the start of October, short sterling rates are indicating that financial markets do not expect a second increase until May 2018 with a third increase in November 2019. However, some forecasters are flagging up that they expect growth to improve significantly in 2017 and into 2018, as the fall in inflation will bring to an end the negative impact on consumer spending power while a strong export performance will compensate for weak services sector growth. If this scenario were to materialise, then the MPC would have added reason to embark on a series of slow but gradual increases in Bank Rate during 2018. While there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two years will pan out.

## **2.2 Interest Rate Forecast**

The Council's treasury advisor, Link Asset Services (formerly Capita Asset Services), has provided the following forecast:

	NOW	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
BANK RATE	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.25
3 month LIBID	0.40	0.40	0.40	0.40	0.40	0.60	0.60	0.60	0.70	0.90	0.90	1.00	1.20
6 month LIBID	0.45	0.50	0.50	0.50	0.60	0.80	0.80	0.80	0.90	1.00	1.00	1.10	1.30
12 month LIBID	0.65	0.70	0.80	0.80	0.90	1.00	1.00	1.10	1.10	1.30	1.30	1.40	1.50
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.10	2.10	2.20
10 yr PWLB	2.10	2.10	2.20	2.30	2.40	2.40	2.50	2.60	2.60	2.70	2.70	2.80	2.90
25 yr PWLB	2.70	2.80	2.90	3.00	3.00	3.10	3.10	3.20	3.20	3.30	3.40	3.50	3.50
50 yr PWLB	2.40	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10	3.20	3.30	3.30

Link Asset Services (Link) undertook its last review of interest rate forecasts on 7 November after Bank rate was increased to 0.5%. Economic forecasting remains difficult with so many external influences weighing on the UK. Link's forecasts will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year.

### 3.0 Treasury Management Strategy Statement and Annual Investment Strategy Update

3.1 The Treasury Management Strategy Statement (TMSS) for 2017/18 was approved by Cabinet on 8 February 2017. The Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as follows:

- Security of capital
- Liquidity.

There are no policy changes to the TMSS.

3.2 The Council aims to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity and to obtain an appropriate level of return which is consistent with the Council's risk appetite.

3.3 There is still uncertainty and volatility in the financial and banking market globally. In this context, it is considered that the strategy approved on 8 February 2017 is still fit for purpose in the current economic climate.

### 4.0 The Council's Capital Position (Prudential Indicators)

#### 4.1 Prudential Indicator for Capital Expenditure

The table below shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital Expenditure	2017/18 Original Estimate £m	Position as at 30.9.17 £m	2017/18 Revised Estimate £m
General Fund	39.8	31.0	70.3
HRA	4.3	2.0	8.8
<b>Total</b>	<b>44.1</b>	<b>33.0</b>	<b>79.1</b>

## 4.2 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2017/18 Original Estimate £m	2017/18 Revised Estimate £m
<b>Total spend</b>	<b>44.1</b>	<b>79.1</b>
Financed by:		
Capital receipts	11.5	4.0
Capital grants	6.2	10.2
Capital reserves	4.2	6.4
Revenue	-	0.6
<b>Total financing</b>	<b>21.9</b>	<b>21.2</b>
<b>Borrowing need</b>	<b>22.2</b>	<b>57.9</b>

The increase in the revised estimated capital spend in 2017/18 is mainly due to:

- Re-profiling of previously approved schemes, mainly Hampden Retail Park which was expected to complete in March 2017 but actually completed in May 2017 (£18.2m) and other reprofiling including those relating to JTP, Devonshire Park, EHIC loans and Land & Acquisitions;
- New schemes approved relating to EHIC and Aspiration Homes totalling £30m, of which £3m has been profiled in 2017-18;
- Changes to HRA capital programme totalling £4.5m relate to the HEDP schemes and a new scheme of £262k for the conversion of the Riverbourne kitchen.

## 4.3 Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary.

The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary.

	2017/18 Original Estimate £m	2017/18 Revised Estimate £m
Prudential Indicator – Capital Financing Requirement		
CFR – non housing	73.4	102.6
CFR – housing	42.6	42.8
Total CFR	116.0	145.4
Net movement in CFR	20.5	56.5
Prudential Indicator – External Debt / the Operational Boundary		
Borrowing	96.0	
Serco Paisa Loans	0.5	
Total debt 31 March	96.5	

The revised estimate has been increased from the original forecast Capital Financing Requirement due to the increased borrowing for EHIC Loan, Aspiration Homes and changes to the financing of the Devonshire Park Project.

There is a requirement to increase the Operational Boundary and this will formally submitted to Cabinet in December 2017.

#### 4.4 **Limits to Borrowing Activity**

One key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Net external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2017/18 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2017/18 Original Estimate £m	Position As at 30.9.17 £m	2017/18 Revised Estimate £m
Gross borrowing	96.0	91.0	122.0
Serco Paisa Loans	0.5	0.7	0.5
Less investments	-	(2.0)	-
Net borrowing	96.5	89.7	122.5
CFR (year end position)	116.0	116.0	145.4

It is important to note that the CFR revised estimate includes uncommitted borrowing of £6.8m in 2017-18 which relates to facilities agreed by Cabinet but there has been no commitment to borrow funds which will be dependent on the viability and profitability of proposed schemes.

No difficulties are envisaged for the current or future years in complying with this prudential indicator.

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt (£m)	2017/18 Original Indicator	2017/18 Revised Indicator*	Current Position

Borrowing	96.0	146.4	91.0
Other long term liabilities	0.5	0.5	0.7
<b>Total</b>	<b>96.5</b>	<b>146.9</b>	<b>91.7</b>

\* Agreed Cabinet 12<sup>th</sup> July 2017

## 5.0 Investment Portfolio 2017/18

5.1 Investment rates available in the market continue at a historical low point. The average level of temporary funds available for investment purposes in the first six months of 2017/18 was £4.5m arising from the timing of precept payments, receipt of grants and progress on the capital programme.

5.2 A full list of investments held as at 30 September 2017 is shown in the table below. All investments are with British Banks and Building Societies:

Counterparty	Term	£m	Rate of Return %
Santander	On Call	2.0	0.55
<b>Total</b>		<b>2.0</b>	

The above figures exclude the balance held on the Council's current accounts with Lloyds Bank of £565,000 at a rate of 0.15%

Approved limits within the Annual Investment Strategy were not breached during the first six months of 2017/18.

5.3 Investment performance against benchmark was as follows:

Benchmark	Benchmark Return	Council Performance	Interest Earnings
7 day	0.11%	0.38%	£8,500

5.4 The authority outperformed the benchmark by 0.27%. The budgeted investment return for 2017/18 is £50,000. Performance for the year to date is below target due to cash balances being utilised instead of borrowing. The continuous use of internal balances is in line with the Council's strategy and reduces the amount of interest paid on loans.

## 5.5 Investment Counterparty criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

## 6.0 Borrowing

6.1 The following new loans were drawn down:

Lender	Amount £m	Interest Rate %	Start Date	Repayment Date
PWLB	2.0	2.43	15/5/2017	24/9/2058

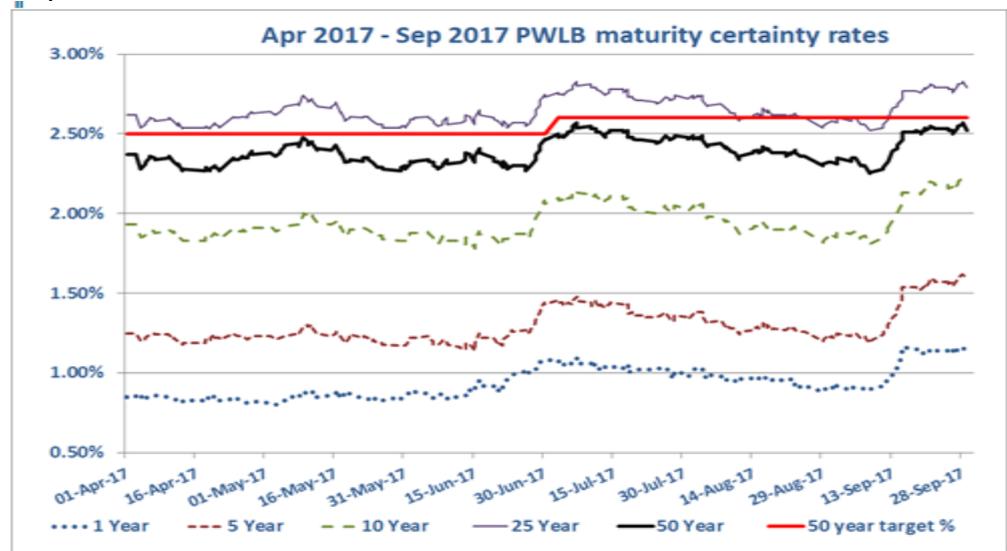
PWLB	2.0	2.41	15/5/2017	24/3/2062
PWLB	2.0	2.40	15/5/2017	24/3/2065
PWLB	2.0	2.33	22/5/2017	24/9/2066
PWLB	2.0	2.33	22/5/2017	24/3/2067
PWLB	2.0	2.39	11/8/2017	24/9/2066
PWLB	2.0	2.33	15/8/2017	24/9/2065
PWLB	2.0	2.30	31/8/2017	24/9/2062
<b>Total</b>	<b>16.0</b>			

One loan with PWLB for £3m was repaid during the first 6 months of the year.

As at 30.9.17 the Council had temporary borrowing of £18m at an average rate of 0.29%. This is short term borrowing from four Local Authorities which is being renewed periodically in accordance with cash flow needs.

6.2 The Council's revised estimated capital financing requirement (CFR) for 2017/18 is £145.4m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The table above at 4.4 shows the Council has net borrowings of £91.7m and has utilised £24.3m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate.

6.3 The graph below shows the movement in PWLB rates for April to September 2017.



## 7.0 Debt Rescheduling

7.1 Debt rescheduling opportunities have been limited in the current

economic climate and consequent structure of interest rates. No debt rescheduling was undertaken during the first six months of 2017/18.

## **8.0 Compliance with Treasury and Prudential Limits**

- 8.1 It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits". Council's approved Treasury and Prudential Indicators (affordability limits) are outlined in the approved TMSS.
- 8.2 During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

## **9.0 Consultation**

- 9.1 None.

## **10.0 Resource Implications**

- 10.1 None

**Janet Martin**  
**Senior Accountant**

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### **Background Papers:**

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

- CIPFA Treasury Management in the Public Services code of Practice (the Code)
- TMSS Policy
- Annual Investment Strategy

To inspect or obtain copies of background papers please refer to the contact officer listed above.



# EASTBOURNE BOROUGH COUNCIL

## ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2017



# EXECUTIVE SUMMARY

## Purpose of the letter

This Annual Audit Letter summarises the key issues arising from the work that we have carried out in respect of the financial year ended 31 March 2017. It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public. It will be published on the website of Public Sector Audit Appointments Limited.

## Responsibilities of auditors and the Council

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office’s Code of Audit Practice (the Code), and to review and report on:

- the Council’s financial statements
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to report where we have exercised our statutory powers under the Local Audit and Accountability Act 2014 in any matter, and on our grant claims and returns certification work.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the audit.

BDO LLP  
30 October 2017

## Audit conclusions

### FINANCIAL STATEMENTS

We issued an unmodified true and fair opinion on the financial statements on 29 September 2017.

We reported our detailed findings to the Audit and Governance Committee on 20 September 2017. We reported on uncorrected misstatements which management and the Audit and Governance Committee concluded were immaterial.

We identified no significant deficiencies in internal controls. We did, however, report on areas where improvements in controls could be made, including property valuations, disposals of replaced components and consideration of components to be included in the group accounts.

### USE OF RESOURCES

We issued an unmodified conclusion on the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources on 29 September 2017.

While there is a recognised funding gap in the Medium Term Financial Strategy (MTFS), we are satisfied that the Council has appropriate arrangements to continue to remain financially sustainable over the period of the MTFS. All of the required savings for 2017/18 have been identified.

### EXERCISE OF STATUTORY POWERS

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

### GRANT CLAIMS AND RETURNS CERTIFICATION

Our review of grant claims and returns for the year ended 31 March 2017 is in progress and the results will be reported upon completion of this work.

# FINANCIAL STATEMENTS

## OPINION

We issued an unmodified true and fair opinion on the financial statements on 29 September 2017.

## Scope of the audit of the financial statements

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

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

## Our assessment of risks of material misstatement

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

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

MANAGEMENT OVERRIDE OF CONTROLS	RESPONSE	FINDINGS
<p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.</p> <p>Under auditing Standards there is a presumed significant risk of management override of the system of internal controls.</p>	<p>We reviewed the appropriateness of journal entries and other adjustments made in the preparation of the financial statements and obtained an understanding of any significant or unusual transactions.</p> <p>We reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represented a risk of material misstatements due to fraud.</p>	<p>No issues were identified in our review of the appropriateness of journal entries and other adjustments to the financial statements. We did not identify any unusual transactions.</p> <p>Our views on significant management estimates are reported below. Our work on accounting estimates did not identify any evidence of management bias.</p>

REVENUE RECOGNITION	RESPONSE	FINDINGS
<p>Under auditing Standards there is a presumption that income recognition presents a fraud risk.</p> <p>Our Audit Planning Report identified a risk in relation to the existence and completeness of fees and charges recorded in the Comprehensive Income and Expenditure Statement (CIES).</p>	<p>We tested an increased sample of fees and charges to underlying documentation, to cover the existence and accuracy of transactions throughout the year.</p> <p>We also tested an increased sample of receipts either side of year end, to confirm that income had been recorded in the correct period and that all income that should have been recorded at year end had been.</p>	<p>Our testing of revenue from fees and charges throughout the year and receipts either side of year end did not identify any issues.</p>

# FINANCIAL STATEMENTS

## Continued

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CHANGES IN THE PRESENTATION OF THE ACCOUNTS	RESPONSE	FINDINGS
<p>The Code of Practice on Local Authority Accounting required a change to the presentation of some areas of the financial statements in 2016/17. This included changes to the format of the CIES , Movement in Reserves Statement and Segmental Reporting note and a new Expenditure and Funding Analysis note and Expenditure and Income analysis note. These changes required a restatement of the comparative figures.</p> <p>Our Audit Planning report identified a risk that these presentational changes may not have been correctly applied in the financial statements.</p>	<p>We checked that the required presentational changes were correctly reflected within the financial statements.</p>	<p>Our audit found that the financial statements largely complied with the new requirements. A few issues were identified by our audit, which were corrected in the final financial statements. These included:</p> <ul style="list-style-type: none"> <li>• Differences between the Expenditure and Funding Analysis and the outturn information in the Narrative Report</li> <li>• £2.1 million of income and £958,000 of expenditure reclassified from net cost of services to investment properties and trading income in the CIES.</li> </ul>
RECHARGES	RESPONSE	FINDINGS
<p>The Council is currently in the process of undergoing a major Joint Transformation Programme (JTP) with Lewes District Council to merge frontline services and back office functions. In February 2017, the vast majority of Lewes District Council employees were transferred to the employment of the Council. Recharging arrangements are in place for the employment costs of the transferred employees and for each of five service areas (Corporate Management Team, Legal Services, Information Technology, Human Resources and Asset Management). On a monthly basis the Council calculates, based on these arrangements, the amount to be recharged via invoice back to Lewes District Council.</p> <p>Our Audit Planning Report identified risks in respect of the completeness and accuracy of the payroll information transferred from the Lewes payroll system onto the Eastbourne payroll system, the recharges between the councils and accounting for the recharges in the CIES and senior officer remuneration disclosures.</p>	<p>We reviewed the work performed by the Council’s payroll team in checking the migration of data from the Lewes payroll system.</p> <p>We reviewed the reasonableness and accuracy of the recharge arrangements in place between the councils and the manual adjustments made to record shared employee and other costs on a net accounting basis.</p> <p>We also reviewed the senior officers’ remuneration note to check that the disclosures for senior managers and employees earning over £50,000 were complete and accurate and that the Council’s share of the costs were in line with the relevant recharge arrangement.</p>	<p>Our review of the data migration work completed by the Council’s payroll team did not identify any issues.</p> <p>For the five service lines which are operating full shared service arrangements under phase one of the JTP, there are set percentages in place for the amounts to be recharged, which are between 40% and 50% per service. Our checks on the amounts recharged did not identify any issues. We are satisfied that the governance structures in relation to the recharging arrangements are appropriate.</p> <p>We were also satisfied that the senior officers’ remuneration note complied with the requirements of the Code of Practice on Local Authority Accounting , and further explanations were added to the note in the final financial statements to clarify what was included in some of the disclosures.</p>

# FINANCIAL STATEMENTS

## Continued

VALUATION OF LAND AND BUILDINGS	RESPONSE	FINDINGS
<p>Local authorities are required to ensure that the carrying value of non-current assets is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date.</p> <p>The Council appointed an external valuer to carry out a full revaluation as at 1 April 2016, and a further desktop review was performed as at 31 March 2017.</p> <p>Due to the significant value of the Council's non-current assets, and the high degree of estimation uncertainty, we identified a risk over the valuation of non-current assets where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year-end.</p>	<p>We reviewed the instructions provided to the valuer and the valuer's skills and expertise to determine if we could rely on the management expert.</p> <p>We checked that the basis of valuation for assets was appropriate, including whether investment properties and surplus assets were valued based on 'highest and best use.'</p> <p>We reviewed valuation movements against independent data showing indices of price movements for similar classes of assets. We followed up valuation movements that appeared unusual against indices, or any assets which may have had material movements since the last valuation.</p>	<p>We were satisfied that we could rely on the valuer and the basis of valuations applied was appropriate.</p> <p><b><u>Council dwellings</u></b></p> <p>The formal valuation of HRA council dwellings as at 1 April 2016 was significantly different from the values included in the prior year financial statements as at 31 March 2016, which had been indexed each year since the last formal valuation on 1 April 2011. The Council accounted for revaluation increases of £36.355 million.</p> <p>We challenged the assumptions used by the valuer and assessed whether the prior year values were based on the best available information at the time that the 2015/16 financial statements were certified and whether additional information became available to the valuer since its prior year end desktop review.</p> <p>Following discussions with management and their enquiries with the valuer, we identified three key explanations for the movement in HRA properties:</p> <ul style="list-style-type: none"> <li>• £5 million from a decrease in the national discount factor for social housing</li> <li>• £6 million from latest house price index data compared to the annual indexation applied by the Council in the five years since the last valuation, which was based on the information received from the valuer</li> <li>• £26.602 million relating to disposal of replaced components from the capital programme.</li> </ul> <p>Management previously used capital programme additions as a proxy measure for the value of disposals of replaced components written out but this assumed no depreciation on these replaced components. The valuation as at 1 April 2016 proved that this approach was overly prudent. As a result of the audit, management recognised a prior period adjustment to reduce the opening balance of property, plant and equipment and increase the opening capital adjustment account balance by £26.602 million, for the overstatement of losses on disposal in prior years. An adjustment of £4.185 million was also been processed to reduce the value of replaced components derecognised in 2016/17.</p>

# FINANCIAL STATEMENTS

## Continued

VALUATION OF LAND AND BUILDINGS	RESPONSE	FINDINGS
As above.	As above.	<p><b><u>Other land and buildings</u></b></p> <p>We also compared the movements in asset valuations for general fund assets as at 1 April 2016 to the last formal valuation as at 1 April 2011 and the prior year closing net book value. The valuer provided acceptable explanations for significant movements in assets where more recent information was available at the time of the formal valuation, including changes in property occupation and rental values.</p> <p>For assets valued on a depreciated replacement cost basis, the Council applied indexation of 3% for the year, based on information on price movements provided by the valuer, which was considered reasonable in comparison to a 3.27% increase in national build costs per independent market data.</p> <p>For assets valued on an existing use basis, no indexation was applied as the valuer confirmed that there were no material price movements in the year. This was considered reasonable compared to independent market data, which indicates a decrease of 0.1%.</p> <p><b><u>Investment properties</u></b></p> <p>All properties were revalued and an overall fair value gain of 4% was recognised, which compared to a 1.83% increase in national indices for IPD rental values.</p>

# FINANCIAL STATEMENTS

## Continued

PENSION LIABILITY	RESPONSE	FINDINGS
<p>The net pension liability comprises the Council's share of the market value of assets held in the East Sussex County Council's Pension Fund and the estimated future liability to pay pensions.</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 is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>Our Audit Planning Report identified a risk that the valuation may not have been based on accurate membership data or may have used inappropriate assumptions to value the liability.</p>	<p>We agreed the disclosures to the information provided by the pension fund actuary.</p> <p>We used a PwC consulting actuary report to review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data and to review of the actuary's methodology.</p> <p>We obtained assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary. We checked whether any significant changes in membership data were communicated to the actuary.</p>	<p>Our review of the pensions note in the draft financial statements provided for audit noted that there had been a significant movement from investments with quoted prices not in active markets ('level 2' in the fair value hierarchy) to investments with quoted prices in active markets ('level 1' in the fair value hierarchy) compared to the prior year. Further to our enquiries, management queried the classification with East Sussex County Council, the pension fund administrators. This resulted in the actuary issuing revised reports which reclassified investment funds and unit trust equities and bonds from level 1 to level 2. This was then corrected in the final financial statements.</p> <p>We did not identify any other issues regarding the accuracy of the disclosures in the financial statements or the accuracy and completeness of data provided by the pension fund to the actuary.</p> <p>We were satisfied that the actuary adequately took account of the transfer in of the majority of Lewes District Council's staff in valuing the Council's pensions liability at year end.</p>
GROUP ACCOUNTS	RESPONSE	FINDINGS
<p>Welbeing has now completed its fourth year of operation and it is possible that accumulated retained profits have increased to a material level. This would require the transactions in both Welbeing and CloudConnX, if cumulatively material, to be included in the Council's Group Accounts, using equity accounting.</p> <p>Our Audit Planning Report identified a risk that the Group Accounts would not have been complete if the Council did not account for its share of material transactions in Welbeing and CloudConnX.</p>	<p>We reviewed the financial statements and management accounts of Welbeing and CloudConnX, to determine if they needed to be included in the Council's Group Accounts on the grounds of materiality.</p> <p>We reviewed the Group Accounts and checked that assets, liabilities, income and expenditure and relevant disclosures were consolidated where necessary.</p>	<p>Transactions in respect of Greencoat House Limited, Welbeing and CloudConnX are not material, therefore we are satisfied that these entities have been appropriately excluded from the Group Accounts.</p> <p>The Council's two wholly owned subsidiaries have been correctly consolidated in the Group Accounts. Our testing did not identify any issues in respect of the transition from FRS102 to IFRS in the consolidation into the Group Accounts for these two companies.</p> <p>The Group Accounts were correctly adjusted for the revised pension assets table for the Council (as reported above). However revised asset tables were not received from the actuary for the two wholly owned subsidiaries. We reported this as an unadjusted disclosure error.</p>

# FINANCIAL STATEMENTS

## Continued

### Our application of materiality

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

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

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

The materiality for the financial statements as a whole was set at £2.1 million. This was determined with reference to a benchmark of gross expenditure (of which it represents two per cent) which we consider to be one of the principal considerations for the Council in assessing the financial performance.

We agreed with the Audit and Governance Committee that we would report all individual audit differences in excess of £42,000.

### Audit differences

Our audit identified the following material misstatements, which were corrected in the final financial statements:

- £90.877 million reclassification of pension scheme assets from those with quoted prices in active markets to those with quoted prices not in active markets, due to an error in the actuary's report
- £26.602 million overstatement of in year revaluations of council dwellings (gains recognised in the Comprehensive Income and Expenditure Statement) because of an overstatement of the net book value of components derecognised when replaced by new additions in previous years (corrected by way of a prior period adjustment)
- £4.185 million overstatement of the loss on disposal of replaced components because of an overstatement of the net book value of replaced components derecognised
- £3.22 million overstatement in the disclosure of capital commitments.

Correction of these issues reduced the surplus on the provision of services in the current year by £22.417 million. However, as they were capital adjustments, which are subsequently reversed through reserves, there was no impact on usable reserve balances.

Our audit also found two audit difference not corrected in the final financial statements, that would have impacted on the reported surplus of adjusted:

- An error in the calculation of the allowances for impairment of collection fund debtors. The impairment charge in the Collection Fund was understated by £200,000 for council tax (the Council's share being £26,000) and £87,000 for non-domestic rates (the Council's share being £35,000). As a result, the Council's debtors and expenditure were understated by £61,000
- Understatement of expenditure of £53,000 due to overstatement of expenditure in the prior year.

Correcting for these misstatements would have resulted in the Council reporting a £114,000 lower surplus for the year. We considered that these misstatements did not have a material impact on our opinion on the financial statements.

### Other matters we report on

#### Annual Governance Statement

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

#### Narrative reporting

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

We were satisfied that the information given in the Narrative Report for the year ended 31 March 2017 was not inconsistent with the financial statements.

# FINANCIAL STATEMENTS

## Continued

### Internal controls

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

- Perform a critical review of property valuation reports received and query any unexplained significant movements
- Review the Council's approach for estimating the value of depreciated replaced components to recognise as disposals going forward
- Review the combined transactions of Greencoat House Ltd, Welbeing and CloudConnx in future years and if material ensure that the organisations are consolidated in the Council's Group Accounts.

### Whole of Government Accounts

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

The Council falls below the threshold for review and there was no requirement for further work other than to submit the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure. We submitted this on 29 September 2017, in advance of the national deadline.



# USE OF RESOURCES

## CONCLUSION

We issued an unmodified conclusion on the arrangements for securing economy, efficiency and effectiveness in its use of resources on 29 September 2017.

### Scope of the audit of use of resources

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

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

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

### Our assessment of significant risks

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

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

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SUSTAINABLE FINANCES	RESPONSE	FINDINGS
<p>The Medium Term Financial Strategy (MTFS) to 2019/20 forecast further reductions in Government core grant funding, falling New Homes Bonus funding from 2017/18 and annual inflationary and pay award pressures. Budget gaps were identified in 2016/17 (£0.6 million), 2017/18 (£1.1 million), 2018/19 (£1.0 million) and 2019/20 (£1.0 million), resulting in an average level of required savings of £940,000 per annum over the four year period.</p>	<p>As a starting point for assessing the effectiveness of the Council’s arrangements for ensuring sustainable finances, we reviewed current year outturn and the Council’s reserves position.</p>	<p>The Council has a track record of delivering underspends in the General Fund. In 2016/17, the Council originally budgeted for a decrease in the general fund of £1.319 million, before transfers to earmarked reserves. There were some variances in the year but the final position against the revised budget was an underspend of £138,000. This was largely due to savings on contracts and increased income which was partially offset by the re-profiling of JTP savings to 2017/18. This resulted in the Council using £734,000 of its general fund balance to support services, and £112,000 was transferred from earmarked reserves. The closing General Fund balance remains above the minimum level of £1 million recommended by the Section 151 Officer.</p> <p>The Council achieved its efficiency savings and income generation target of £588,000, under its transformation programme and revenue generation schemes during 2016/17.</p> <p>An updated MTFS from 2017 - 2021 was approved by Cabinet in July 2017. Revised budget gaps have been identified in 2017/18 (£2 million), 2018/19 (£1.4 million), 2019/20 (£1.0 million) and 2020/21 (£0.8 million), resulting in an average level of required savings of £1.33 million per annum over the four year period. While this is an increase in required savings from the previous MTFS update, the savings for 2017/18 have been identified and relate largely to planned new income streams, the JTP shared transformation programme and procurement savings.</p>

# USE OF RESOURCES

## Continued

SUSTAINABLE FINANCES	RESPONSE	FINDINGS
<p>The Council currently has a number of major development / transformation programmes in place to either help facilitate these savings or create additional revenue streams in the medium term, to close the budget gaps.</p> <p>Our Audit Planning Report identified a risk that the MTFS may not adequately take account of the investment costs and savings associated with these projects, or that the Council may not have appropriate arrangements to monitor progress in delivering benefits from these projects against the MTFS.</p>	<p>We reviewed the assumptions used in the MTFS for investment costs and savings associated with major development/transformation programmes.</p> <p>We also reviewed the Council's arrangements for monitoring the progress of these programmes against the budgeted savings targets.</p>	<p><b>Joint transformation programme with Lewes District Council</b></p> <p>In November 2016, Cabinet approved a three phase delivery of the JTP, with phase one lasting from September 2016 to March 2017 for management and corporate activity to deliver £1.05 million of savings across the two councils. Phase two is taking place in 2017/18, covering frontline services and delivery of a further £1 million of savings, and phase three is expected to be in 2018/19 with an ongoing review of support services delivering £0.8 million of savings. Although the exact savings figure for Phase one will not be established until the final vacant roles are recruited, management expects to slightly exceed the savings target. Good progress has also been made on key technology projects to align the two councils.</p> <p><b>Devonshire Park Complex</b></p> <p>This major project is budgeted at £44 million, with costs totalling £5.497 million incurred in 2016/17. Construction is still ongoing and on budget, and the Council is seeking grant contributions for the project.</p> <p><b>Housing investment and commercial development</b></p> <p>In March 2017, Cabinet approved the establishment of a Joint Housing Investment Partnership, jointly owned with Lewes District Council. Aspiration Homes LLP was incorporated on 30 June 2017. The Council plans to carry out more commercial development through this structure, with the LLP acting as the asset holding vehicle for affordable housing developed through the commercial development programmes. Although there was no benefit realisation in 2016/17, it is expected to assist with the savings gap going forward.</p> <p><b>Other ongoing projects within the Borough</b></p> <p>In December 2016, Cabinet approved the construction of a new leisure centre, which will generate profits after debt costs. The redevelopment of the Wish Tower Restaurant is expected to generate revenue an additional revenue stream. In July 2017, Cabinet approved the Joint Board for Energy and Sustainability combined with Lewes District Council, with income generation through management fees expected to be realised from 2017/18 onwards.</p> <p><b>Conclusion</b></p> <p>We are satisfied that the MTFS takes accounts of the investment costs associated with the Council's major transformational projects, and once these scheme are further established, management should be in a better place to forecast all of the associated savings going forward.</p>

## EXERCISE OF STATUTORY POWERS

### Use of statutory powers

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

#### REPORT BY EXCEPTION

We have no matters to report by exception.

### Audit certificate

We issued the audit certificate to close the audit for the year ended 31 March 2017 on 29 September 2017.

# GRANT CLAIMS AND CERTIFICATION

## CERTIFICATION WORK

Our review of grant claims and returns for 2016/17 is in progress and the results will be reported upon completion of this work.

### Housing benefit subsidy claim

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

Our audit of the 2015/16 housing benefit subsidy claim identified a high level of error in rent allowance cases (including modified schemes). Our work was completed and the claim was certified on 21 December 2016 and full details of the identified errors were reported to the Audit and Governance Committee on 8 March 2017. Our audit certification was qualified and we quantified the effect of the errors identified on the Council's entitlement to subsidy in a letter to DWP.

Our work on the 2016/17 housing benefits subsidy claim is currently in progress and is expected to be completed ahead of the submission deadline of 30 November 2017.

### Pooling of housing capital receipts return

The Council has requested that we undertake a 'reasonable assurance' review, based on the instructions and guidance provided by the Department of Communities and Local Government (DCLG), for its pooling of housing capital receipts return for 2016/17. The deadline for completion of this work is 31 October 2017.

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

Our review of the 2016/17 return is in progress. The Council has amended the claim in respect of new-build expenditure in the year, which has reduced reported expenditure by £1.45 million, to £457,000. As we are unable to see the revised return in the Logasnet system, the Council is in correspondence with DCLG to resolve the issue. As a result, an extension to the deadline has been requested.

# APPENDIX

## Reports issued

We have issued the following reports since our previous Annual Audit Letter.

## Fees

We reported our original fee proposals in our Audit Planning Report.

REPORT	DATE
Audit Planning Report 2016/17	27 February 2017
Planning Letter 2017/18	21 April 2017
Audit Completion Report 2016/17	12 September 2017
Audit Completion Report 2016/17 (Updated)	28 September 2017
Annual Audit Letter 2016/17	30 October 2017

AUDIT AREA	PLANNED FEES	FINAL FEES
Code audit	67,781	67,781
Certification of housing benefits subsidy	8,297	8,297
<b>Fee for audit services</b>	<b>76,078</b>	<b>76,078</b>
Audit related services:		
- Pooling of housing capital receipts	1,500	1,500
<b>Fee for audit related services</b>	<b>1,500</b>	<b>1,500</b>
Other non audit related services:		
- None	-	-
<b>Total fees</b>	<b>77,578</b>	<b>77,578</b>

The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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