



# EASTBOURNE BOROUGH COUNCIL

AUDIT PLAN TO THE AUDIT AND GOVERNANCE COMMITTEE

Audit for the year ending 31 March 2014

4 March 2014

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# EXECUTIVE SUMMARY

We are pleased to present our Audit Plan for the year ending 31 March 2014. This plan summarises the work that we propose to undertake in respect of our audit of Eastbourne Borough Council for the 2013/14 financial year.

## Significant Risks

Our audit is designed to respond to significant risks and identify where we intend to focus our resources in providing our opinion on the financial statements and our value for money conclusion. Summarised below are the significant risks that impact on our audit of which we are currently aware:

### FINANCIAL STATEMENTS

Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.

Auditing standards presume that there are risks of fraud in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the stated accounting policies or from an inappropriate use of estimates in calculating revenue.

The Code amends the requirement for the revaluation of property, plant and equipment (PPE) for these to be carried out with sufficient regularity to ensure the carrying amount does not differ materially from the fair value at the end of the reporting period and for all items in a class of assets to be revalued simultaneously.

Billing authorities are now required to estimate the value of successful NDR rate appeals and to include this in the Collection Fund account.

Four councils have entered into a joint waste contract and the lead authority is currently undertaking an assessment whether the contract contains a lease arrangement and the appropriate accounting for refuse vehicles of new bins purchased.

There is some uncertainty over the legal ownership of sea defences where previous capital expenditure has been recorded as property, plant and equipment assets by the Council, and the extent of damage caused by the recent storms. The Council is reviewing the basis for recognising these as assets and any impairment to valuations.

### FINANCIAL STATEMENTS (continued)

The Council has approved an additional investment in Wealden and Eastbourne Lifeline and has committed up to £6 million of further funding, if required, over the next five years. The Council owns 70% of the company but retains only 48% of the voting rights. Management has stated that it does not exercise control and proposes to account for this as an associate investment.

### USE OF RESOURCES

Government continues to reduce funding for local government, and combined with additional pressures arising from demographic and other changes, will have a significant impact on the financial resilience of the Council in the medium term.

## Fees

As set out in our Planning Letter 2013/14, the proposed Code audit fee for the year is £88,920 plus VAT, which agrees to the scale fee published by the Audit Commission.

## Key outputs

The key reports, opinions and conclusions from the audit will be:

REPORT	DATE
Report on any significant deficiencies in internal controls, if required, based on the results of our interim audit visit	May 2014
Final report to those charged with governance	September 2014
Independent auditor's report including: <ul style="list-style-type: none"> <li>Opinion on the financial statements</li> <li>Value for money conclusion</li> <li>Certificate</li> </ul>	By 30 September 2014
Assurance statement on the Whole of Government Accounts return	By 4 October 2014
Summary of findings from the audit in the Annual Audit Letter	October 2014

# SCOPE OF THE AUDIT

The purpose of this audit plan is to:

- Ensure that there is mutual understanding of the respective responsibilities relating to the audit
- Provide you with an overview of the planned scope of the audit for the year ending 31 March 2014
- Ensure that the areas of potential significant risk of material misstatement which we have identified are consistent with the areas which you perceive to be the key areas and to promote effective two-way communication between us.

We will also provide reports to management and those charged with governance on the findings of the audit which will focus on the significant matters arising from the audit of the Council regarding internal control, financial governance and reporting and accounting arrangements. We aim to provide management with clear recommendations that will add value to the Council.

## Audit scope

The scope of the audit is determined by the Audit Commission's *Code of Audit Practice for local government bodies 2010* ('Code') and our principal objectives under the Code are to:

- Provide an opinion on the financial statements
- Provide a report on the Whole of Government Accounts return
- Provide an opinion on the arrangements for securing economy, efficiency and effectiveness in the use of resources.

## Respective responsibilities

Our responsibilities, as auditors, are set out in the Audit Commission's *Statement of Responsibilities of Auditors and Audited Bodies (2010)*. Our audit is conducted in accordance with International Standards on Auditing (UK & Ireland) (ISAs). Auditing Standards require auditors to communicate relevant matters relating to the audit to 'those charged with governance'. Relevant matters include issues on auditor independence, audit planning information and findings from the audit.

We will communicate matters of governance interest that have come to our attention as a result of the performance of the audit. Communication may take the form of discussions or, where appropriate, be in writing. The audit is not designed to identify all matters that may be relevant to you.

Our contacts for communications will be the Chief Finance Officer and the Audit and Governance Committee. When communicating with the Audit and Governance Committee we will consider all individuals representing those charged with governance as informed and our responsibilities for communicating relevant matters will be discharged.

## FINANCIAL STATEMENTS

As part of our audit we obtain an understanding of the Council's system of internal control sufficient to plan the audit. We assess the adequacy of the design of specific controls that respond to significant risks of material misstatement and evaluate whether those controls have been implemented. Where we intend to place reliance on particular controls for the purposes of our audit, we will carry out procedures to test the operating effectiveness of those controls and use the results of those procedures to determine the nature, timing and extent of further audit procedures to be performed.

In order to achieve an efficient and cost effective audit, we aim to work closely with internal audit to minimise duplication and the overall level of audit resource input. We have planned the audit on the basis that we will be able to place full reliance on the work of internal audit.

We will communicate to management any deficiencies in internal control identified during the audit. Where those deficiencies are significant, we will also communicate to those charged with governance.

### Misstatements due to fraud

The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect fraud and corrupt practices lies with management and those charged with governance (the Audit and Governance Committee).

## FINANCIAL STATEMENTS (continued)

We have a responsibility to consider specifically the potential risk of material misstatement of your financial statements as a result of fraud and error, including the risk of fraudulent financial reporting. We have discussed possible risk of material misstatement arising from fraud with the Chief Finance Officer and Head of Internal Audit.

We will write to the Chair of the Audit and Governance Committee to confirm how the Committee oversees management processes to identify and respond to the risk of fraud, and whether there is knowledge of any actual, suspected or alleged frauds affecting the Council other than those reported by management. In the meantime please let us know if there are any other actual, suspected or alleged instances of fraud of which you are aware.

For all fraud risks, and for any actual frauds that have been identified and we have been informed of, we will consider the possible impact on your financial statements and our audit programme.

### Materiality and triviality

Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. In carrying out our work we will apply an appropriate level of materiality and as such the audit cannot be relied upon to identify all potential or actual misstatements.

For planning purposes, we have set materiality at £2.1 million (2.0% of average gross expenditure in the Comprehensive Income and Expenditure Statement excluding non-recurrent expenditure).

For reporting purposes, we consider misstatements of less than £42,000 to be trivial, unless the misstatement is indicative of fraud. We are required to bring to your attention unadjusted audit differences that are more than trivial that the Audit and Governance Committee is required to consider and we will request that you correct them.

## WHOLE OF GOVERNMENT ACCOUNTS RETURN

Local authorities are required to prepare information to allow HM Treasury to prepare consolidated Whole of Government Accounts (WGA) based on the statutory financial statements.

The WGA return is audited in accordance with Audit Commission specified procedures. We provide an assurance report to the National Audit Office to confirm that the WGA return is consistent with the audited financial statements and that it is properly prepared.

## USE OF RESOURCES

The Code requires auditors to issue a conclusion on whether the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

This is based on the following two reporting criteria:

- The organisation has proper arrangements in place for securing financial resilience; the organisation has 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; the organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We plan a programme of value for money audit work based upon our risk assessment.

## Engagement partner

We are committed to providing you with exceptional client service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact Leigh Lloyd-Thomas in the first instance. Alternatively, you may wish to contact our Managing Partner, Simon Michaels. Any complaint will be investigated carefully and promptly. If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales (“ICAEW”).

In addition, the Audit Commission’s complaints handling procedure is detailed in their leaflet “How to complain: What to do if you want to complain about the Audit Commission or its appointed auditors”, which is available on their website <http://www.audit-commission.gov.uk/about-us/contact-us/complaints>

## Independence and objectivity

We are required to communicate to those charged with governance, at least annually, all relationships that may bear on the firm’s independence and the objectivity of the audit engagement partner and audit staff.

In relation to the audit of the financial statements for Eastbourne Borough Council for the financial year ending 31 March 2014, we are able to confirm that the Audit Commission’s requirements in relation to independence and objectivity have been complied with and we are not aware of any relationships that would affect our independence. Should this change we will update you accordingly.

# RISK ASSESSMENT

We are committed to targeting work to where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. The determination of significant risks is a matter for auditors' professional judgment.

For each of the significant risks identified, we consider the arrangements put in place to mitigate the risk and plan our work accordingly. If you consider there to be other significant risks of material misstatement in the financial statements or, arrangements for securing economy, efficiency and effectiveness in the use of resources, whether due to fraud or error, please let us know. Summarised below are the significant audit risks that impact on our audit of which we are currently aware.

FINANCIAL STATEMENTS AUDIT RISKS			
RISK	RISK DETAIL	ACCOUNTS AREA AND ASSERTIONS	AUDIT RESPONSE
<b>MANAGEMENT OVERRIDE</b>	Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.	Financial statement level risk across all account headings and assertions.	We will carry out audit procedures to review significant journals and other adjustments in preparing the financial statements, review the reasonableness of assumptions used by management when including accounting estimates, and obtain an understanding of unusual transactions.
<b>REVENUE RECOGNITION</b>	Auditing standards presume that there are risks of fraud in 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.	Existence, accuracy and completeness of income.	We will substantively test a sample of income received and debtor accruals to ensure that accounting policies have been correctly applied in determining the point of recognition of income.
<b>PROPERTY, PLANT AND EQUIPMENT (PPE) VALUATIONS</b>	The 2013/14 Code amends the requirement for the revaluation of PPE for these to be carried out with sufficient regularity to ensure the carrying amount does not differ materially from the fair value at the end of the reporting period and for all items in a class of assets to be revalued simultaneously.	Valuation of property plant and equipment.	We will review management's proposed use of indices, selective valuations of land and building assets, and their application to classes of assets for ensuring that the carrying value of PPE does not differ materially from the fair value.
<b>NON DOMESTIC RATE (NDR) APPEALS PROVISION</b>	For 2013/14, billing authorities are required to estimate the value of successful NDR rate appeals, including backdated appeals, and to include this in the Collection Fund account. There is significant uncertainty over the estimation of the provision due to potential incomplete data and likely success rate of appeals.	Completeness and accuracy of NDR appeals provision.	We will review the reasonableness of the assumptions used by management and compare this to information available for recent rate appeals and comparable information obtained from other sources.

FINANCIAL STATEMENTS AUDIT RISKS (CONTINUED)			
RISK	RISK DETAIL	ACCOUNTS AREA AND ASSERTIONS	AUDIT RESPONSE
<b>JOINT WASTE CONTRACT SERVICE</b>	Four councils have entered into a joint waste contract where Rother District Council is the lead authority for the joint committee. The lead authority is currently undertaking an assessment whether the contract contains a lease arrangement and the appropriate accounting for refuse vehicles. The lead authority has also purchased bins for use across the region and the arrangements for accounting for this expenditure has not yet been determined.	Presentation of refuse vehicles and expenditure on bins through the joint waste contract.	We will review the Council's consideration of the accounting requirements for the joint waste contract against IFRIC 4 (arrangements that contain a lease) and IAS 17 (leases).
<b>SEA DEFENCES</b>	There is some uncertainty over the legal ownership of sea defences where previous capital expenditure has been recorded as property, plant and equipment assets by the Council, and the extent of damage caused by the recent storms. The Council is reviewing the basis for recognising these as assets and any impairment to valuations.	Existence and valuation of coastal sea defences included in property, plant and equipment.	We will review the assessment undertaken by the Council including the legal and constructive ownerships, the basis of valuation and the need to recognise any impairment in respect of the coastal sea defences infrastructure.
<b>LIFELINE INVESTMENT</b>	The Council has approved an additional investment in Wealden and Eastbourne Lifeline and has committed up to £6 million of further funding, if required, over the next five years. The Council owns 70% of the company but retains only 48% of the voting rights. Management has stated that it does not exercise control and proposes to account for this as an associate investment.	Presentation of the investment in Wealden and Eastbourne Lifeline as a subsidiary or associate and also the impact on the Group financial statements.	We will review the key tests of the ability to control the company to support the proposed accounting for the investment as an associate.
USE OF RESOURCES AUDIT RISKS			
RISK	RISK DETAIL	AUDIT RESPONSE	
<b>FINANCIAL RESILIENCE</b>	Government continues to reduce funding for local government, and combined with additional pressures arising from demographic and other changes, will have a significant impact on the financial resilience of the Council in the medium term.	We will review the Council's MTFS to assess the reasonableness of assumptions and how the Council is addressing financial pressures.	



# AUDIT TIMETABLE


The timetable for key reports, opinions and conclusions from the audit will be:

OUTPUT	DATES
<b>FINANCIAL STATEMENTS</b>	
Review of internal controls	March - April 2014
Final audit visit	July - August 2014
Audit opinion covering: <ul style="list-style-type: none"> <li>• ‘True and fair’ opinion on the financial statements</li> <li>• Information in the Statement of Accounts being consistent with auditor’s knowledge</li> <li>• Annual governance statement is prepared in accordance with guidance and not inconsistent with auditor’s knowledge</li> </ul>	By 30 September 2014
Opinion on the Whole of Government Accounts return	By 4 October 2014
<b>USE OF RESOURCES</b>	
Review of economy, efficiency and effectiveness	March - August 2014
Value for money conclusion	By 30 September 2014

<b>REPORTING</b>	
Report on any significant deficiencies in control (if required)	May 2014
Final report to those charged with governance	September 2014
Annual Audit Letter	October 2014

We will agree specific dates for our visits with officers in advance of each part of our programme, and we will work closely with officers during the year to ensure that all key deadlines are met. We will also meet regularly with senior officers to discuss progress on the audit and obtain an update on relevant issues.





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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