EASTBOURNE BOROUGH COUNCIL

FINAL REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE

Audit for the year ended 31 March 2014

15 September 2014

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OVERVIEW
Significant audit findings

This summary covers the significant findings from our audit of Eastbourne Borough Council ('Council') for the year ended 31 March 2014. However, you should read the entirety of this report, as there may be other matters raised that you consider important.

AREA OF AUDIT	SUMMARY
Financial statements	Subject to satisfactory completion of the outstanding work shown on the following page, we anticipate issuing an unqualified true and fair opinion on the financial statements for the year ended 31 March 2014. Our final audit materiality is £2 million (see appendix III) and we have reported all non-trivial unadjusted audit differences greater than £40,000. Five material misstatements were identified as a result of our audit, which have been corrected in the revised financial statements and have reduced the deficit for the year by £23.241 million. However, as these corrections all relate to capital items which are subsequently reversed through reserves, there is no impact on the closing general fund balance: • classification of revaluation movements on council dwellings and other land and buildings • classification of write off of replaced council dwellings components and recognition of a prior period adjustment • classification of write off of overstated investment property and recognition of a prior period adjustment • correction to depreciated replacement cost valuations in prior years property and recognition of a prior period adjustment • classification of write off of sea defences. There are four unadjusted audit differences identified by our audit work which would decrease the revised deficit on the provision of services by £748,000 to £1.701 million (from £2.449 million). We identified one further unadjusted audit difference which relates to the Group accounts only. When combined with the unadjusted audit differences on the Council accounts, these would increase the revised surplus on the provision of services in the Group accounts by £706,000 to £5.860 million (from £5.154 million).
Control environment	We did not identify any significant deficiencies in controls. A few areas for improvement were identified which we have discussed with management and recorded in Appendix IV.
Governance reporting	We are satisfied that the annual governance statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with "Delivering Good Governance in Local Government" (CIPFA / SOLACE).
Whole of Government Accounts (WGA)	The Council's WGA is below the threshold for full assurance review. Our review of the Council's WGA Data Collection Tool (DCT) is in progress.
Use of resources	We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

OVERVIEW
Audit status and timetable to completion

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

AUDIT STATUS

We have substantially completed our audit work in respect of the financial statements and use of resources for the year ended 31 March 2014. The following matters are outstanding at the date of this report.

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

- Receipt of final statement of accounts for agreed amendments
- Subsequent events review
- Management representation letter, as attached in Appendix VI, to be approved and signed.

TIMETABLE TO COMPLETE

The anticipated timetable to complete is as follows:

ACTIVITY	DATE
Complete review of final statement of accounts	by 23 September 2014
Audit and Governance Committee meeting	24 September 2014
Signing of financial statements	24 September 2014
Submission of WGA assurance report	3 October 2014

INDEPENDENCE
Integrity, objectivity and independence and appropriate safeguards

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

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to bear on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the firm's independence and the objectivity of the audit engagement partner and the audit staff. We have considered such matters in the context of our audit for the year ended 31 March 2014.

FEES AND NON AUDIT SERVICES

A summary of fees for audit and non-audit services for the period from 1 April 2013 to date is set out below:

	£
Audit fees	88,920
Certification fees (estimate)	12,592
Non-audit service fees	
- Certification of 2012/13 grant statement for decent homes backlog programme	[(1)] 2,000
- Tax subscription	[(2)] 2,500
TOTAL FEES	**106,012**

[(1)] This review is no longer covered by the Audit Commission certification regime and we were asked by the Council to undertake a review of the return.

[(2)] The Council subscribes to a Tax helpline operated by BDO for payroll and construction industry taxes.

OTHER RELATIONSHIPS

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

LONG ASSOCIATION THREATS

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

Key audit staff	Years involved
Leigh Lloyd-Thomas - Audit engagement partner	2
Janine Combrinck - Audit Manager	1

INDEPENDENCE DECLARATION AND APPROPRIATE SAFEGUARDS

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

AUDIT SCOPE AND OBJECTIVES

SCOPE AND OBJECTIVES

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

1. The financial statements give a true and fair view of the financial position as at 31 March 2014 and of the income and expenditure for the year then ended.
2. The financial statements have been prepared properly in accordance with statutory requirements and proper practices have been observed in their compilation.
3. The financial statements have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting.
4. The information given in the statement of accounts and explanatory foreword is consistent with the financial statements.
5. The annual governance statement is not inconsistent with our knowledge and complies with relevant guidance.
6. The Whole of Government Accounts return is consistent with the audited financial statements and that it is properly prepared.
7. The audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

FINANCIAL STATEMENTS
Key audit and accounting matters

SIGNIFICANT AND OTHER RISKS OF MATERIAL MISSTATEMENT

We reported our risk assessment, which brought to your attention areas that require additional or special audit consideration and are considered a significant audit risk, in the 2013/14 Audit Plan issued in March 2014. We have since undertaken a more detailed assessment of risk following our review of the draft financial statements, and we have not included any additional significant risks. We report below our findings of the work designed to address these significant risks, our review of significant accounting estimates and management judgements, and any other relevant audit and accounting issues arising.

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

SIGNIFICANT AUDIT RISK AREAS

RISK	RELATED CONTROLS / RESPONSE TO RISK	WORK PERFORMED	CONCLUSION
MANAGEMENT OVERRIDE OF CONTROLS	ISA (UK&I) 240 requires us to presume that a risk of management override of controls is present and significant in all entities. By its nature, there are no controls in place to mitigate the risk of management override.	We reviewed the appropriateness of journal entries and other adjustments made in the preparation of the financial statements. We also reviewed accounting estimates for evidence of possible bias.	No issues have been identified in our review of the appropriateness of journal entries and other adjustments made in the preparation of the financial statements. Our work on accounting estimates has not identified any evidence of bias.
REVENUE RECOGNITION	The largest component of Council income is annual grant funding which is agreed to notification from Government. Council tax and non-domestic rates income are based on precepts and demands on the collection fund. Remaining significant revenue streams are paid for at the point of service provision, such as license or planning applications, and are recognised at that point. Grants and contributions received are reviewed for conditions by finance staff and only recognised as revenue where there are no remaining conditions. Subsidy income for benefits is calculated based on DWP subsidy calculations and reconciled to underlying benefits paid. Throughout the year budget monitoring meetings are held between finance accountants and the budget holder to discuss the current results of actuals against budget and highlight any areas that look unusual.	We substantively tested an extended sample of income streams to supporting documentation to confirm that income had been accurately recorded and earned in the year. We also tested a sample of receipts either side of the year end to ensure that income was complete and accounted for in the correct period. We also relied on controls in place over invoiced income, by reviewing the work of internal audit and carrying out top-up testing of controls to ensure full coverage of the financial year.	No issues have been identified from our testing of income streams and year end cut off with regard to the recognition of revenue in the relevant financial year.

FINANCIAL STATEMENTS
Key audit and accounting matters (continued)

SIGNIFICANT AUDIT RISK AREAS			
RISK	**RELATED CONTROLS / RESPONSE TO RISK**	**WORK PERFORMED**	**CONCLUSION**
PROPERTY, PLANT AND EQUIPMENT (PPE) VALUATIONS	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. The Council revalues all its council dwellings and other land and buildings every five years, and obtains a year end desktop review of price movements from its valuer in the intervening years. In 2013/14, as a result of our audit recommendations in the prior year, the Council has applied indexation to council dwellings to recognise the increase in market prices at year end. The Council also obtained a desktop valuation for five other land and buildings in 2013/14, where there had been significant capital expenditure, to ensure that the year-end carrying amounts are not materially different from their fair value. *(Continued)*	We have reviewed management's use of indices for the movement in the market value of council dwellings and selective valuations of other land and buildings, and agreed the adjustments to the carrying values of PPE. We have reviewed the accounting adjustments processed for all revaluation movements. We have reviewed the adjustments processed for capital expenditure in recent years.	The Council has applied the indices notified by its valuers for the movement in the market price of houses since the last formal valuation of council dwellings in April 2011, and these indices are in line with regional movements. The Council has also adjusted the carrying value of other land and building to reflect the results of the formal valuations obtained for selected properties where there was significant capital expenditure. The following issues were identified from our audit of revaluations: **Accounting for revaluation adjustments** The revaluations recognised in the draft financial statements were not correctly classified between the revaluation reserve and the Comprehensive Income and Expenditure Statement (CIES). The financial statements have now been amended to transfer £12.095 million of impairment reversals from the revaluations reserve to net cost of services expenditure, with a corresponding transfer to the capital adjustment account through the Movement in reserves Statement. **Write off of capitalised expenditure on council dwellings** The Council had written off all capital expenditure incurred on council dwellings in the last three years as an impairment charge of £18.183 million in the draft financial statements on the grounds that management considered that it did not add any enhanced value to the properties. The Council has not derecognised any of the items replaced in the refurbishment work as these are not separately identifiable. Under IAS 16 *Property, plant and equipment*, the Council should have estimated the carrying value of the replaced items and removed them from property, plant and equipment balances, recognising a loss on derecognition, rather than impairing the assets.

FINANCIAL STATEMENTS
Key audit and accounting matters (continued)

SIGNIFICANT AUDIT RISK AREAS			
RISK	**RELATED CONTROLS / RESPONSE TO RISK**	**WORK PERFORMED**	**CONCLUSION**
PROPERTY, PLANT AND EQUIPMENT (PPE) VALUATIONS	*(Continued)*		The Council has reclassified the entries in the property, plant and equipment note in the revised financial statements to recognise a loss on derecognition of non-current assets of £7.037 million in the CIES (within operating expenditure rather than an impairment within the cost of services). The remaining £11.146 million has been similarly reclassified by way of a prior period adjustment. This has also involved amendments to the Movement in Reserves Statement, capital adjustment account, HRA and corresponding notes.
		We have reviewed how accumulated depreciation on revalued assets has been cleared to re-set the valuation.	**Classification of revaluation adjustments** The Council had disclosed all current year revaluation movements as movements in gross cost/valuation within the PPE note. Amendments have now been made in the revised financial statements to split out the revaluation movements between cost/valuation and accumulated depreciation.
		To understand the reason for some of valuation movements, we reviewed the basis of valuations provided by the valuer in the prior and current year.	**Prior year depreciated replacement cost (DRC) valuations** During the audit it was noted that prior year DRC valuations by the valuer incorrectly included finance charges. Revised valuations were requested from the valuer and these indicated that that other land and building were overstated by £2.783 million in the 1 April 2011 valuation. This issue has been corrected in the revised financial statements by way of a prior year adjustment to reduce the opening balances on PPE by £2.783 million, revaluation reserve by £1.747 million and capital adjustment account by £1.036 million.
			Impairment of duplicated asset PPE was impaired by £596,000 in the draft financial statements as a result of a building that the Council found was double counted in previous years.

FINANCIAL STATEMENTS
Key audit and accounting matters (continued)

SIGNIFICANT AUDIT RISK AREAS			
RISK	**RELATED CONTROLS / RESPONSE TO RISK**	**WORK PERFORMED**	**CONCLUSION**
PROPERTY, PLANT AND EQUIPMENT (PPE) VALUATIONS		We reviewed the calculation of the indexation gain on assets.	Had the impairment been recognised at the time that the misstatement arose in previous years, the Council's deficit per the revised financial statements would have been £596,000 lower. This issue is noted in Appendix II. **Indexation calculation** A minor difference of £61,000 has occurred due to roundings in the calculations, meaning that council dwellings and reversal of impairments to the CIES are understated by £61,000. This is noted as an unadjusted audit difference in appendix II.
NON DOMESTIC RATE (NDR) APPEALS PROVISION	For 2013/14, billing authorities were 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 incomplete data and likely success rate of appeals. Management has calculated the estimate based on historical appeals up to 30 September 2013.	We have reviewed the reasonableness of the assumptions used by management by agreeing to reports received from the Valuation Office Agency and comparing to information available for recent rate appeals.	We have verified the source data used within the calculation back to the reports received from the Valuation Office. We have also calculated the success rate of the 27 appeals resolved after year-end, excluding outliers. This has indicated that the year-end provision is reasonable and unlikely to be materially misstated.
SEA DEFENCES	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 reviewed the basis for recognising these as assets and any impairment to valuations.	We reviewed 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. We assessed whether an impairment or derecognition on disposal should be recognised.	The Council has written off the sea defences carrying value of £4.649 million on the grounds that it no longer exists. However, the write off was classified as an impairment in the draft financial statements rather than a loss on derecognition. This has been amended in the revised financial statements.

FINANCIAL STATEMENTS
Key audit and accounting matters (continued)

SIGNIFICANT AUDIT RISK AREAS			
RISK	**RELATED CONTROLS / RESPONSE TO RISK**	**WORK PERFORMED**	**CONCLUSION**
JOINT WASTE SERVICE CONTRACT	Four councils have entered into a joint waste contract where Rother District Council is the lead authority for the joint committee. The lead authority undertook an assessment of whether the contract contains a lease arrangement and the appropriate accounting for refuse vehicle, and has concluded that each council should account only for their share of the revenue expenditure and income on the contract, and that the contract does not contain a lease of the plant and vehicles used by the contractor.	We have reviewed the East Sussex councils' consideration of the accounting requirements for the joint waste contract against IFRIC 4 (arrangements that contain a lease) and IAS 17 (leases).	We are satisfied with management's assessment that this arrangement does not meet the definition of a lease as per IFRIC 4 and IAS 17.
LIFELINE INVESTMENT	The Council owns 70% of Welbeing Limited but retains only 49.9% of the voting rights. Management has stated that it does not have significant influence over the organisation and therefore it has not been included in the Council's group accounts. The Council also has 25% of the voting rights of CloudConnx. Management has also stated that it does not have significant influence over this organisation and therefore it has not been included in the Council's group accounts.	We reviewed the key tests for control and significant influence under both IAS 27 *Separate financial statements* and IAS 28 *Investments in associates and joint ventures*.	Under IAS 28, the Council does have significant influence over both Welbeing Limited and CloudConnx and therefore these organisations should be accounted for as associates. However, the associates' financial statements are not material to the Council and therefore it is acceptable that they are not included in the Group Accounts. As a result of the audit the Council has now disclosed this reasoning in its revised financial statements. From 1 April 2014 IFRS 10 *Consolidated financial statements will* apply. This statement considers factors other than current voting rights when assessing whether entities should be consolidated. The Council's agreement with Welbeing Limited states that it has £952,000 of equity loan notes which may become convertible to shares in 7 years, thereby increasing their voting rights to 75%. The Council will need to consider whether it has the ability to control Welbeing Limited, and the need to consolidate as a subsidiary, under the requirements of IFRS 10.

FINANCIAL STATEMENTS
Key audit and accounting matters (continued)

SIGNIFICANT ACCOUNTING ESTIMATES AND MANAGEMENT JUDGEMENTS		
RISK	**WORK PERFORMED**	**CONCLUSION**
VALUATION OF PROPERTY, PLANT AND EQUIPMENT	We have reviewed management’s use of indices for the movement in the market value of council dwellings and selective valuations of other land and buildings obtained from the valuers.	We are satisfied that the valuer is sufficiently independent of the Council, objective and experienced in undertaking this work. The year-end review includes a report on the movement in the average market prices of housing in the area. These reports indicate an increase of 4.2% in the market value of houses. We are satisfied this is in line with regional movements.
PENSION FUND LIABILITY	The Audit Commission has obtained an independent review of all local government pension scheme actuaries, which includes an assessment of their independence, objectivity and experience, and also the reasonableness of the assumptions used in the calculation of the scheme liabilities. We have reviewed this and checked that the assumptions used for the Council’s scheme liabilities are within reasonable levels. We have also sought assurances from the auditor of the pension fund over the information on membership data and scheme assets provided to the actuary.	We are satisfied that the actuary is suitably independent, objective and experienced to undertake this work and that the assumptions used in the calculations are reasonable. We note that that weighted average duration of the defined benefit obligation for scheme members is less than 17 years. In this case the discount rate assumption is lower than expected, which will lead to a higher value than expected being placed on liabilities. However, the 'net discount rate' or the difference between the discount rate and the consumer price index inflation assumption used for pension increases is within an expected range. As it is this difference (rather than the assumptions in isolation) that drives the overall liability figures, we are satisfied that the assumptions when taken together will give a reasonable liability figure. There are adequate controls over the submission of data from the pension fund to the actuary.

FINANCIAL STATEMENTS
Key audit and accounting matters (continued)

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES		
RISK	**WORK PERFORMED**	**CONCLUSION**
GROUP ACCOUNTS AND CONSOLIDATION	We have checked the consolidation of Eastbourne Homes Limited (EHL) financial statements in the Group Accounts and we have reviewed the auditor's report on the financial statements.	Our review of EHL's audited financial statements found that a dilapidations provision was being recognised over time rather than full recognition at the start. As a result the provision t 31 March 2014 is understated by £42,000. As the Council has consolidated EHL's financial statements, the Group Accounts are misstated by this amount and we have recorded an unadjusted misstatement in Appendix II. All of the unadjusted misstatements noted by EHL's auditors are trivial to the Group Accounts.
EXPENDITURE CUT OFF	We performed substantive testing on post year-end cash receipts and payments to gain assurance over the completeness of debtor and creditor accruals.	Testing of post year-end cash payments identified one amount of £7,000 that was not accrued for at 31 March 2014. When extrapolated this indicates a potential misstatement of £63,000. This has been recorded as an extrapolation misstatement in Appendix II, although we accept that the extrapolation is a very crude measure of total potential misstatements in the untested population.
INVESTMENT PROPERTY	We reviewed the classification of the investment properties by inspecting a sample of lease agreements, and determined whether they continue to meet the definition of an investment property.	Our audit found that investment properties include a building with a carrying value of £4.936 million that the Council does not have legal rights to. The asset was built by the lessee who is occupying the land on a 125 year lease. The building was erroneously included in the valuer's valuation of the property several years ago and was brought into the Council's accounts at that stage. The Council has now removed this value from its PPE and capital adjustment account by way of a prior period adjustment in the revised financial statements.
CAPITAL RECEIPT	We reviewed the evidence supporting the initial capital receipt recorded in the Events after the Balance Sheet date note in the draft financial statements.	The Council reported in its draft financial statements that it received an initial payment of £750,000 in 2014/15 in respect of its claim for costs relating to the building of Towner. As it was received before the draft financial statements were certified in June 2014, the income was certain and should have been accrued for at 31 March 2014. This has been recorded as an unadjusted audit difference in Appendix II.
ACCUMULATED ABSENCES PROVISION	In the prior year we reported an unadjusted error for the classification of the accumulated absences liability. We reviewed the classification in the current year to confirm that this liability is now correctly disclosed as a creditor rather than a provision.	In the draft financial statements the Council had continued to disclose the accumulated absences liability as a provision. Management has now transferred the balance of £63,000 to creditors in the revised financial statements.

FINANCIAL STATEMENTS
Key audit and accounting matters (continued)

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES		
RISK	**WORK PERFORMED**	**CONCLUSION**
BANK RECONCILITION	We audited the Council's bank reconciliation by agreeing to bank statements and cash book and vouching a sample of reconciling items.	The bank reconciliation includes an amount of £138,000 that has been deducted from the bank statement balance in reconciling to the general ledger balance. It relates to cash that has been banked but is not yet recorded in the cashbook or used to reduce the debtor balance. This means that the bank balance in the general ledger is understated and debtors are overstated. This has been recorded as an unadjusted audit difference in Appendix II.
ACCOUNTS DISCLOSURES	We review material accounting disclosures, to confirm that they are correctly stated and in compliance with the requirements of the Code. *(Continued)*	The following presentational and disclosure amendments have been made to the draft financial statements: - Amendments to the disclosures on the SERCO and Steria credit arrangements to include all the required disclosures on the timing of future payments - Adjustment to split out rental income and investment properties from the trading operations line in the CIES - Amendments to the grants and contributions receivable note to reflect the correct classification of the Council's demand on the collection fund below the cost of services line - Amendments to the Amounts reported for resource allocation decisions note as the directorate income and expenditure note did not reconcile to the subjective analysis in the draft financial statements - Inclusion in the PPE note of fully depreciated assets that are still in use by the Council. - Adjustment to capital commitments disclosure for parks and gardens, to revise the amount from £285,000 to £101,000 as three contracts previously recognised were not signed prior to 31 March 2014 - Amendments to the financial instruments disclosures to remove trading operations from interest and investment receivable and payable, include Welbeing Limited investment within loans and receivables, adjust the fair value of trade accounts receivable, include rental debtors in the trade account receivables balance, and include the transformation fund creditor in the short term loans balance

FINANCIAL STATEMENTS
Key audit and accounting matters (continued)

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES		
RISK	**WORK PERFORMED**	**CONCLUSION**
ACCOUNTS DISCLOSURES		- Amendments to the financial instruments disclosure for credit risks to adjust the aged debt analysis and potential maximum exposure table to remove debtors which are not financial instruments (council tax, business rates and housing benefits), and include long term investments and long term debtors - Amendments to the financial instruments disclosure for price risks include the equity shares with Welbeing Limited - Include disclosure of land charges contingent asset of £404,000 - Include disclosure of contingent asset in respect of ongoing negotiation of costs relating to the Towner building.

FINANCIAL STATEMENTS OPINION

Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified true and fair opinion on the financial statements for the year ended 31 March 2014.

CONTROL ENVIRONMENT
Significant deficiencies and other observations

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to you.

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

We have not identified any significant deficiencies, however we have reported below other deficiencies and observations.

Key: ■ **Significant deficiency in internal control** ■ **Other deficiency in internal control** ■ **Other observations**

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION
COUNCIL DWELLING DISPOSALS	The Council has incurred expenditure of £18.183 million on the refurbishment of its housing stock in the last three years. This was written off as impairment as impairment in the current year on the grounds that management considered that it did not add any enhanced value to the properties. IAS 16 *Property, plant and equipment* requires that components are derecognised from PPE when they are replaced. The Council has not derecognised any of the items replaced in the refurbishment work as these are not separately identifiable. However, the Code Guidance Notes for Practitioners states that if the carrying amount of the replaced part or component cannot be identified, it is usually acceptable under the Code to use the cost of the replacement as a proxy for the deemed carrying amount of the replaced part and to adjust this for depreciation and impairment.	Failure to remove replaced components from council dwellings when capital expenditure is incurred will result in the carrying value of value of council dwellings being overstated.	The Council should review its procedures for accounting for significant capital expenditure on council dwellings, to ensure that replaced components are appropriately removed from PPE.

We made the observations reported to you above during the course of our normal audit work. Management responses to our recommendations are included in appendix IV.

GOVERNANCE REPORTING
Governance matters and quality of reporting

FINANCIAL STATEMENTS PREPARATION	CONCLUSIONS AND AUDIT ISSUES
The draft financial statements, within the statement of accounts, was prepared and provided to us for audit on 30 June 2014. As part of our planning for the audit, we prepared a detailed document request which outlined the information we would require to complete the audit. As in previous years, a comprehensive file of audit working papers has been provided to us on the first day of the audit.	We have no significant matters to report.

ANNUAL GOVERNANCE STATEMENT	CONCLUSIONS AND AUDIT ISSUES
We are required to review the draft annual governance statement and to be satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Councils review of effectiveness and our knowledge of the Council.	We are satisfied that the annual governance statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with "Delivering Good Governance in Local Government" (CIPFA / SOLACE).

STATEMENT OF ACCOUNTS	CONCLUSIONS AND AUDIT ISSUES
We are required to read all the financial and non-financial information in the explanatory foreword to the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.	Subject to a few minor inconsistencies which have been corrected in the revised Statement of Accounts, we are satisfied that the information given in the Foreword by the Chief Finance Officer is not inconsistent with the financial statements.

WHOLE OF GOVERNMENT ACCOUNTS
Consistency of the Data Collection Tool

SCOPE OF THE REVIEW OF THE DATA COLLECTION TOOL	CONCLUSION AND AUDIT ISSUES
We are required to perform tests with regard to the WGA return prepared by the Council for use by the Department of Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level. This work requires checking the consistency of the WGA return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.	The Council's WGA is below the threshold for full assurance review. Our review of the Council's WGA Data Collection Tool (DCT) is in progress.

ASSURANCE STATEMENT

Subject to completion of our review, we do not expect to report any issues.

USE OF RESOURCES
Scope of the review

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

AUDIT COMMISSION SPECIFIED CRITERIA	FOCUS OF REVIEW
Our principal work in arriving at our value for money conclusion was comparing the Council's performance against the requirements specified by the Audit Commission in its guidance to auditors. This is based on the following two reporting criteria: • The organisation has proper arrangements in place for securing financial resilience. The focus of the criteria is that the Council 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 focus of the criteria is that the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity. We draw sources of assurance relating to their value for money responsibilities from: • the Council's system of internal control as reported on in its annual governance statement • the results of the work of the Commission, other inspectorates and review agencies • any work mandated by the Commission • any other locally determined risk-based value for money work that auditors consider necessary to discharge their responsibilities.	We have reviewed the Council's arrangements against risk indicators and key issues facing the sector including the Government's spending review, funding over the medium term, risks arising from welfare reform, and risks from the localisation of business rates. In our audit plan we reported the follow significant risks to the Council: • 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 have also reviewed the Council's relative performance against the VfM Profile Tool and Financial Ratios Analysis Tool produced by the Audit Commission, issues arising from VfM Briefings provided by the Audit Commission, and the key assumptions in the Medium Term Financial Strategy.

USE OF RESOURCES
Financial resilience

The financial resilience criterion has three aspects: financial governance, financial planning and financial control.

FINANCIAL GOVERNANCE	AUDIT ISSUES AND IMPACT ON CONCLUSION
Clear leadership has been shown on financial governance matters through the work of the Cabinet and the management team to prepare for, and then respond to, the Government's Comprehensive Spending Reviews and known financial settlements. It is important that this is continued as the Council faces the challenge of delivering the change required to remain sustainable into the medium term. The Council maintains healthy levels of earmarked reserves and balances. Members have agreed a policy to make use of these reserves to fund investment and non-recurring expenditure rather than using these to support ongoing expenditure.	No areas of concern.

FINANCIAL PLANNING	AUDIT ISSUES AND IMPACT ON CONCLUSION
The Medium Term Financial Strategy (MTFS) and Capital Strategy identify and direct resources at a strategic level, which are then developed through the service and financial planning and budget setting process. The MTFS was updated and approved by Cabinet during the year to cover the four year period to 2017/18. This identified a base funding gap of £3.6 million over the period, to be met by a combination of efficiency savings of £2.2 million and procurement savings of £1.4 million. In 2013/14, the Council originally budgeted to transfer £1.123 million to general reserves to fund investments and the capital programme. The outturn was an underspend of £219,000 against revised budget, a £916,000 transfer to general reserves (excluding items outside of the general fund budget setting process) and a £768,000 increase in the general fund. The general fund balance at 31 March 2014 is £4.687 million. Planned savings of £1.5 million were achieved for the year, of which £1 million related to the waste and street cleaning contract. The Council has set a balanced budget for 2014/15. It includes a savings requirement of £1.6m which it plans to achieve through a combination of efficiency savings and income generation schemes and reduced contribution to reserves of £0.8 million. The budget indicates a number of financial risks however the Council is planning to manage these without needing to use reserves for recurring expenditure. The general fund balance is forecast at £3.8 million for 31 March 2015which remains well above the Council's approved minimum level of £2 million. The 2014/15 budget also includes a small contingency allowance for unforeseen risks that may arise. The MTFS was updated again in July 2014 to cover the four year period to 2018/19. Management has reported that a significant level of savings required for the medium term has already been identified and that the change programmes in place under the Council's transformation programme (DRIVE) and Sustainable service delivery programme (SSDS) are projected to deliver savings in excess of the minimum requirement in order to create headroom for investment in priority services.	No areas of concern.

USE OF RESOURCES
Financial resilience (continued)

FINANCIAL CONTROL	AUDIT ISSUES AND IMPACT ON CONCLUSION
The Council continues to operate sound budget monitoring arrangements. It underspent by £219,000 against the revised budget and has increased its general fund balance by £0.8 million. Overall, usable reserves have increased by £2.1 million. There were some overspends in the year but these were offset by a contingency allowance in the budget and underspends in other areas. Budget monitoring in 2014/5 to date shows a small variance of £17,000 to June 2014. This relates to several areas of minor under and over spends which are being carefully monitored. The contingency fund currently stands at £170,000, of which £5,000 is currently committed, leaving a balance of £165,000 available to fund inflationary increases and any future unforeseen one off areas of expenditure during the year. The Council incurred a deficit of £3 million on its Collection Fund in 2013/14 respect of business rate for the year. This was largely due to a higher than anticipated provision for outstanding appeals and the fact that the government made changes to small business rate reliefs after the Council had set its collection fund estimates.	No areas of concern.

Challenging economy, efficiency and effectiveness

The economy, efficiency and effectiveness criterion has two aspects: prioritising resources and improving efficiency and productivity.

PRIORITISING RESOURCES	AUDIT ISSUES AND IMPACT ON CONCLUSION
Members have a clear understanding of the Council's financial challenges and are being supportive of officers in the budgetary process. Key focus areas in the medium term continue to include: • ensuring that financial benefits continue to realised from the work being done on Sustainable Service Delivery Strategy • ensuring that financial benefits are realised from the work being done on rationalising and renegotiating external contracts through the work on procurement • monitoring both cost and performance to demonstrate to members that despite significant reductions in costs, services continue to deliver services in line with corporate priorities to demonstrate the achievement of value for money.	No areas of concern.

USE OF RESOURCES
Challenging economy, efficiency and effectiveness (continued)

IMPROVING EFFICIENCY AND PRODUCTIVITY	AUDIT ISSUES AND IMPACT ON CONCLUSION
Performance towards key projects underpinning achievement of the Council's four cross cutting themes (a prosperous economy, quality environment, thriving communities and sustainable performance) is regularly monitored by the Cabinet through the quarterly Corporate Performance Report. For the year to 31 March 2014, of the 38 key performance indicators reported in the Corporate Plan, 9 are showing as "Red," 16 are showing as "Green," 4 are showing as "Amber" and 9 are "data only" or contextual PIs. The performance delivered during 2013/14 illustrates that while the Council continues to make improvements in some areas, there remains scope to deliver improvement in other areas. Partnership working with other public sector organisations and the voluntary and community sector underpins the Council's approach to value for money. The Council Plan contains clear commitments to partnership working in providing services to local people. The Council continues to challenge the way services are delivered in response to addressing the medium term financial position. We will continue to monitor the Council's progress in delivering the 'Drive' efficiency programme and the impact that this has on the delivery of sustainable, improving service performance.	No areas of concern.

USE OF RESOURCES CONCLUSION

We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

APPENDICES

APPENDIX I: DEFINITIONS

TERM	MEANING
The Council	Eastbourne Borough Council
Management	The persons responsible for achieving the objectives of the Council and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for: • the financial statements (including designing, implementing, and maintaining effective internal control over financial reporting) • putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them.
Those charged with governance	The persons with responsibility for assurance and the Council's arrangements for governance, managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance. This includes overseeing the financial reporting process. Those charged with governance for the Council are the Audit and Governance Committee.
ISAs (UK & Ireland)	International Standards on Auditing (UK & Ireland)
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards as adopted by the European Union
Materiality	The size or nature of a misstatement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable user of the financial statements would have been changed or influenced as a result of the misstatement.
Code	Code of Practice on Local Authority Accounting in the United Kingdom issued by CIPFA / LASAAC
SeRCOP	Service Reporting Code of Practice for Local Authorities issued by CIPFA / LASAAC
CIES	Comprehensive Income and Expenditure Statement

APPENDIX II: AUDIT DIFFERENCES

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

CORRECTED AUDIT DIFFERENCES

Management has made corrections to the draft financial statements in respect of:

- classification of revaluation movements on council dwellings and other land and buildings
- classification of write off of replaced council dwellings components and recognition of a prior period adjustment
- classification of write off of overstated investment property and recognition of a prior period adjustment
- correction to depreciated replacement cost valuations in prior years property and recognition of a prior period adjustment
- classification of write off of sea defences
- classification of the accumulated absences liability.

These have reduced the deficit for the year by £23.241 million. However, as these corrections all relate to capital items which are subsequently reversed through reserves, there is no impact on the closing general fund balance. The prior period adjustment has increased the restated deficit for 2012/13 by £7.144 million to £10.450 million but again this has no impact on the general fund balance.

A schedule of corrected audit differences is included on the following pages.

UNADJUSTED AUDIT DIFFERENCES

There are four unadjusted audit differences identified by our audit work which would decrease the revised deficit on the provision of services by £748,000 to £1.701 million (from £2.449 million). We identified one further unadjusted audit difference which relates to the Group accounts only. When combined with the unadjusted audit differences on the Council accounts, these would increase the revised surplus on the provision of services in the Group accounts by £706,000 to £5.860 million (from £5.154 million).

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

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

There are no remaining misstatements brought forward from the prior year and correction of prior year misstatements has had no impact on in year financial performance.

APPENDIX II: AUDIT DIFFERENCES
Corrected audit differences

CORRECTED AUDIT DIFFERENCES	2013/14 £'000	2012/13 £'000	INCOME AND EXPENDITURE Dr £'000	INCOME AND EXPENDITURE (Cr) £'000	BALANCE SHEET Dr £'000	BALANCE SHEET (Cr) £'000
CIES deficit on the provision of services before adjustments	**25,690**	3,306				
Dr Revaluation reserve					12,095	
Cr Local authority housing expenditure	**(7,065)**			(7,065)		
Cr Cultural and Related Services	**(4,878)**			(4,878)		
Cr Environmental and regulatory services	**(152)**			(152)		
Dr General Fund through Movement in Reserves Statement (to reverse CIES gain) *****					12,095	
Cr Capital adjustment account						(12,095)
Reclassification of revaluation increases on council dwellings (£7.065m) and other land and buildings (£5.030m), from revaluation reserve to reversals of impairments in the CIES (factual misstatement)						
Dr Council dwellings gross cost/valuation (in year)					11,146	
Cr Council dwellings opening balance (prior period adjustment)						(11,146)
Dr Loss on derecognition of non-current assets (in year)	**7,037**		7,037			
Dr General fund opening balance (prior period adjustment)		7,144			11,146	
Cr Local authority housing expenditure (in year)	**(18,183)**			(18,183)		
Dr General Fund through Movement in Reserves Statement (in year – to reverse CIES gain) *****					11,146	
Cr Capital adjustment account (in year)						(11,146)
Dr Capital adjustment account opening balance (prior period adjustment)					11,146	
Cr General Fund opening balance (prior period adjustment)						(11,146)
Reclassification of write off of replaced council dwellings components, from impairment charge to loss on derecognition of non-current assets, and recognition of prior period adjustment (factual misstatement)						
Dr Capital adjustment account opening balance (prior period adjustment)					4,936	
Cr Investment property opening balance (prior period adjustment)						(4,936)
Reclassification of write off of overstated investment property and recognition of prior period adjustment (factual misstatement)						

(Continued)

APPENDIX II: AUDIT DIFFERENCES

Corrected audit differences

CORRECTED AUDIT DIFFERENCES	2013/14 £'000	2012/13 £'000	INCOME AND EXPENDITURE Dr £'000	INCOME AND EXPENDITURE (Cr) £'000	BALANCE SHEET Dr £'000	BALANCE SHEET (Cr) £'000
Dr Revaluation reserve opening balance (prior period adjustment)					1,747	
Dr Capital adjustment account opening balance (prior period adjustment)					1,036	
Cr Other land and buildings gross cost/valuation opening balance (prior period adjustment)						(2,783)
Correction to depreciated replacement cost valuations in prior years and recognition of prior period adjustment(factual misstatement)						
Dr Loss on derecognition of non-current assets	**4,649**		4,649			
Cr Environmental services expenditure	**(4,649)**			(4,649)		
Reclassification of write off of sea defences, from impairment charge to loss on derecognition of non-current assets, (factual misstatement)						
Dr Provisions					63	
Cr Creditors						(63)
Reclassification of the accumulated absences liability, from provisions to creditors (factual misstatement)						
TOTAL CORRECTED AUDIT DIFFERENCES	**(23,241)**	7,144	11,686	(34,927)	76,556	(53,315)
CIES deficit on the provision of services after adjustments	**2,449**	10,450				

IMPACT ON GENERAL FUND BALANCE	£'000	£'000
General fund balance before adjustments	**(4,687)**	(3,919)
Adjustments to CIES above	**(23,241)**	7,144
Adjustments via Movement in Reserves Statement *		
Dr Reclassification of revaluation increases on Council dwellings	**12,095**	
Dr Reclassification of write off of replaced council dwellings components	**11,146**	(7,144)
General fund balance after adjustments	**(4,687)**	(3,919)

APPENDIX II: AUDIT DIFFERENCES

Unadjusted audit differences: Council accounts

UNADJUSTED AUDIT DIFFERENCES	£'000	INCOME AND EXPENDITURE Dr £'000	INCOME AND EXPENDITURE (Cr) £'000	BALANCE SHEET Dr £'000	BALANCE SHEET (Cr) £'000
CIES deficit on the provision of services after corrected adjustments above	**2,449**				
Dr Council dwellings				61	
Cr Reversals of impairments in the CIES	**(61)**		(61)		
Dr General Fund through Movement in Reserves Statement (to reverse CIES gain) *				61	
Cr Capital adjustment account					(61)
Rounding used to calculate revaluation increases since April 2011 (judgemental misstatement)					
Dr Debtors				750	
Cr CIES Income	**(750)**		(750)		
Dr General Fund through Movement in Reserves Statement (to reverse CIES gain)) *				750	
Cr Capital grants unapplied Capital receipts reserve					(750)
Understatement of income and debtors for capital receipt relating to the building of Towner					
Dr CIES expenditure	**63**	63			
Cr Creditors					(63)
Extrapolated misstatement for £7,000 omitted from creditor accruals (estimation misstatement)					
Dr Cash and cash equivalents				138	
Dr Debtors					(138)
Understatement of cash book balances as a result of unmatched receipts transferred to debtors					
TOTAL UNADJUSTED AUDIT DIFFERENCES	**(748)**	63	(811)	1,760	(1,012)
CIES deficit on the provision of services if the accounts are adjusted for the above issues	**1,701**				

IMPACT ON GENERAL FUND BALANCE	£'000
General fund balance after corrected adjustments above	**(4,687)**
Adjustments to CIES above	**(748)**
Adjustments via Movement in Reserves Statement *	
Dr Reclassification of revaluation increases on Council dwellings	**61**
Dr Capital grants and contributions received	**750**
General fund balance if the accounts are adjusted for the above issues	**(4,687)**

APPENDIX II: AUDIT DIFFERENCES

Unadjusted audit differences: Group accounts

UNADJUSTED AUDIT DIFFERENCES	£'000	INCOME AND EXPENDITURE Dr £'000	INCOME AND EXPENDITURE (Cr) £'000	BALANCE SHEET Dr £'000	BALANCE SHEET (Cr) £'000
CIES surplus on the provision of services after corrected adjustments above	**(5,154)**				
Unadjusted audit differences relating to EBC (entity only) listed above	**(748)**	63	(811)	1,760	(1,012)
Dr Expenditure	**42**	42			
Cr Dilapidations provision					(42)
Ivy House dilapidations provision not recognised in full at the point of initial recognition (factual misstatement)					
TOTAL UNADJUSTED AUDIT DIFFERENCES	**(706)**	105	(811)	1,760	(1,054)
CIES surplus on the provision of services if the accounts are adjusted for the above issues	**(5,860)**				

UNADJUSTED DISCLOSURE MATTERS
The Council has written off an amount of £596,000 in the current year in respect of a building that was duplicated in the accounts in prior years. A prior period adjustment has not been made as the amount is not material. However, the current year deficit, opening general fund balance and opening property, plant and equipment balance are all higher than they would have been had the misstatement been detected and corrected in previous years.

APPENDIX III: MATERIALITY

In carrying out our work we determine and apply a level of materiality. Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole, or individual elements of the financial statements as appropriate. Consequently, the audit cannot be relied upon to identify all risks or potential or actual misstatements. Materiality may relate to both quantitative and qualitative matters, and for quantitative considerations the numerical level materiality is assessed at may be different for different information in the financial statements. Nevertheless, within this context, we provide an indication of the quantitative levels used for planning purposes. Materiality is re-assessed every year in the context of authoritative audit practice.

MATERIALITY		COUNCIL AND GROUP
Planning materiality		£2,000,000
Final materiality		£2,000,000
Clearly trivial threshold		£40,000

Planning materiality of £2 million for the Council and the Group was based on 2% of average gross expenditure of the Council per the draft financial statements. We have no reason to revise our final materiality level.

Triviality was based on 2% of final materiality.

APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
FINANCIAL STATEMENTS				
From 1 April 2014 IFRS 10 *Consolidated financial statements* will apply. This statement considers factors other than current voting rights when assessing whether entities should be consolidated. The Council's agreement with Welbeing Limited states that it has £952,000 of equity loan notes which may become convertible to shares in 7 years, thereby increasing their voting rights to 75%.	Management should formally review its investments in Welbeing Limited and CloudConnx against the requirements of IFRS 10 to assess whether they fall within the definition of control under the new standard.			
CONTROL ENVIRONMENT				
The Council has incurred expenditure of £18.183 million on the refurbishment of its housing stock in the last three years. This was written off as impairment in the current year on the grounds that management considered that it did not add any enhanced value to the properties. IAS 16 *Property, plant and equipment* requires that components are derecognised from PPE when they are replaced. The Council has not derecognised any of the items replaced in the refurbishment work as these are not separately identifiable. The Code Guidance Notes for Practitioners states that if the carrying amount of the replaced part or component cannot be identified, it is acceptable to use the cost of the replacement as a proxy for the deemed carrying amount of the replaced part and to adjust this for depreciation and impairment.	The Council should review its procedures for accounting for significant capital expenditure on dwellings, to ensure that replaced components are appropriately removed from PPE.			

APPENDIX V: STATUTORY AND PROFESSIONALLY REQUIRED COMMUNICATIONS

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

APPENDIX VI: DRAFT REPRESENTATION LETTER

TO TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP
55 Baker Street
London
W1U 7EU

24 September 2014

Dear Sirs

Financial statements of Eastbourne Borough Council for the year ended 31 March 2014

We confirm that the following representations given to you in connection with your audit of the Council's financial statements (the 'financial statements') for the year ended 31 March 2014 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Chief Finance Officer has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2011 and Statement of responsibilities of auditors and of audited bodies local government (March 2010) issued by the Audit Commission, and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2014 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA /LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and for making accurate representations to you.

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

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

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

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

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

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

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

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

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

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

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

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

(a) Pension fund assumptions

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

- Rate of increase in salaries 4.4%
- Rate of increase in pensions / RPI 2.6%
- Rate for discounting scheme liabilities 4.1%
- Take up option to convert the annual pension into retirement grant – pre 31 March 2008 50%
- Take up option to convert the annual pension into retirement grant – post April 2008 75%

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

(b) Valuation of housing stock

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

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

- 0.4% decrease in 2011/2
- 1.7% increase in 2012/13
- 4.2% increase in 2013/14

(c) Carrying value of land and buildings

We are satisfied that the carrying value of other land and buildings is materially consistent with the fair value at 31 March 2014. We confirm that no further adjustments are required to those assets that were last revalued in April 2011.

(d) Non-domestic rates appeals provision

We are satisfied that the provision recognised for non-domestic rates appeals is materially correct, and the calculation of historical appeals are consistent with those advised to me by the Valuation Office Agency. We confirm that the success rates applied to outstanding appeals as at 31 March 2014 (5.38% change in rateable value) is consistent with our knowledge of the business.

We consider that the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis. Furthermore, we confirm that the accounting policies disclosed in the financial statements are sufficient.

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

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

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

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

Yours faithfully

Alan Osborne
Chief Finance Officer

24 September 2014

Councillor Ungar
Chair of the Audit and Governance Committee

For and on behalf of Eastbourne Borough Council

24 September 2014