EASTBOURNE BOROUGH COUNCIL

FINAL REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE

Audit for the year ended 31 March 2015

14 September 2015

CONTENTS

OVERVIEW
Significant audit findings

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

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

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

OVERVIEW
Audit status and timetable to completion

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

AUDIT STATUS

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

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

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

TIMETABLE TO COMPLETE

The anticipated timetable to complete is as follows:

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

INDEPENDENCE

Integrity, objectivity and independence and appropriate safeguards

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

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

FEES AND NON AUDIT SERVICES

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

	£
Audit fees	90,374
Certification fees	11,062
Fees for non audit services:	
- Tax subscription	[1] 2,500
- Pooled capital receipts	[2] TBA
TOTAL FEES	**103,936**

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

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

OTHER RELATIONSHIPS

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

LONG ASSOCIATION THREATS

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

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

INDEPENDENCE DECLARATION AND APPROPRIATE SAFEGUARDS

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

AUDIT SCOPE AND OBJECTIVES

Code of audit practice requirements

SCOPE AND OBJECTIVES

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

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

FINANCIAL STATEMENTS

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SIGNIFICANT AND OTHER RISKS OF MATERIAL MISSTATEMENT

We reported our risk assessment, which brought to your attention areas that require additional or special audit consideration and are considered a significant audit risk, in the 2014/15 Audit Plan issued in February 2015. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the draft financial statements. We have extended the significant risk that we previously reported regarding the change to the housing benefits system to also include the council tax and non domestic rates systems.

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

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

SIGNIFICANT AUDIT RISK AREAS

RISK	RELATED CONTROLS / RESPONSE TO RISK	WORK PERFORMED	CONCLUSION
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	Auditing standards presume that there is a risk of fraud in relation to revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue.	Our review of revenue recognition has focused on testing existence, completeness and accuracy of fees and charges across all service areas within the CIES.	No issues have been identified from our testing of income streams and year end cut off with regard to the recognition of revenue in the correct financial year.

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

FINANCIAL STATEMENTS
Key audit and accounting matters

SIGNIFICANT ACCOUNTING ESTIMATES AND MANAGEMENT JUDGEMENTS		
ESTIMATE	**WORK PERFORMED**	**CONCLUSION**
PENSION LIABILITY	The net pension liability comprises the Council's share of the market value of assets held in the East Sussex Pension Fund and the estimated future liability to pay pensions. An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation. Management has agreed the assumptions made by the actuary to support the estimate and these are disclosed in the financial statements. We have reviewed the reasonableness of the assumptions applied by comparing these to the expected ranges provided by an independent consulting actuary report.	As at 31 March 2015 net pension liabilities disclosed in the balance sheet increased by £3.2 million. This comprised an increase in the liabilities of £13.3 million (to £135.3 million) and an increase in assets of £10m million (to £95.7 million). It should be noted that these retirement benefits (liabilities) will not actually be payable until employees retire but because the Council has a commitment to make the payments (for those benefits) there is a requirement to disclose the information in the accounts at the time employees earn their future entitlement. The last formal valuation of the Fund was carried out as at 31 March 2013. In order to assess the value of the Council's liabilities as at 31 March 2015 the actuary has rolled forward the value of the liabilities calculated at the latest formal valuation, allowing for up to date financial assumptions. The key changes to the financial assumptions relate to: • reduction in the pension increase from 2.6% to 2.1% • reduction in the salary increase rate from 4.4% to 4% • reduction in the discount rate from 4.1% to 3.1% (to place a current value on the future liabilities through the use of a market yield of corporate bonds). The reduction in the discount rate has resulted in a significant increase in the present value of the scheme liabilities at 31 March 2015. We have compared the assumptions used by the actuary to calculate the present value of future pension liabilities with the expected ranges provided by the independent consulting actuary. The Fund has out-performed the market for the year, with returns at 11.7%. We are satisfied that the assumptions used are not unreasonable or outside of the expected ranges.

FINANCIAL STATEMENTS
Key audit and accounting matters

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

FINANCIAL STATEMENTS
Key audit and accounting matters

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

FINANCIAL STATEMENTS
Key audit and accounting matters

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

FINANCIAL STATEMENTS
Key audit and accounting matters

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

FINANCIAL STATEMENTS
Key audit and accounting matters

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES		
ISSUE	**WORK PERFORMED**	**CONCLUSION**
ACCOUNTS DISCLOSURES	We reviewed material accounting disclosures, to confirm that they are correctly stated and in compliance with the requirements of the Code.	Management has agreed to make the following presentational and disclosure amendments to the draft financial statements: - Extension of the accounting policy note for accruals of income and expenditure to state that housing rent income and housing benefit expenditure is recognised on a 52 / 53 week basis - Extension of the accounting policy note for recognition of council tax and business rates income in the CIES - Amendments to the disclosure of revenue expenditure funded from capital under statute and the application of capital grants and contributions to capital financing in the Movement in Reserves Statement, capital expenditure and financing note and unusable reserves note - Minor amendments to the audit fees note - Amendments to the officer's remuneration note to only disclose the amounts paid to new senior managers from the date that they took up the posts - Disclosure of future lease liabilities in the Obligations under long term leases note and inclusion of draw down during 2014/15 in the future minimum payments disclosure - Inclusion of a reconciliation between the long term creditors balance in the balance sheet and the long term lease liabilities note - Amendments to the amounts reported for resources allocation decisions note as the reconciliation for subjective analysis did not reconcile to the CIES and grants and contributions receivable note in the draft financial statements. - Amendments to the table in the valuation of property note to correctly disclose the revaluations or indexation - Amendments to the financial instruments disclosures to adjust the carrying value of trade accounts receivable and to add back £347,000 of trade creditors with other local authorities which relate to contractual payments rather than under statue - Amendment to the post employment benefits note for the amount the Council anticipates paying for expected contributions to the scheme in 2015/16, from £1.943 million to £1.779 million - Reclassification of Towner Trust contingent asset to a contingent liability, and inclusion of further narrative about the transfer of liability - Amendments to the classification of items in the HRA statement so as to reconcile to the CIES - Amendment to the gross yield before adjustments figure in the Collection Fund note 3, from 37.8 to 38.7.

FINANCIAL STATEMENTS
Key audit and accounting matters

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

FINANCIAL STATEMENTS OPINION

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

CONTROL ENVIRONMENT
Significant deficiencies

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

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

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

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

GOVERNANCE REPORTING
Governance matters and quality of reporting

FINANCIAL STATEMENTS PREPARATION	CONCLUSIONS AND AUDIT ISSUES
The draft financial statements, within the statement of accounts, was prepared and provided to us for audit on 30 June 2015. As part of our planning for the audit, we prepared a detailed document request which outlined the information we would require to complete the audit. As in previous years, a file of audit working papers has been provided to us at the start of the audit.	We have no significant matters to report.

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

STATEMENT OF ACCOUNTS	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, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.	Subject to inclusion of explanations for reconciling outturn information disclosed in the foreword to the financial statements and a few minor corrections, we are satisfied that the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements. The forward should be extended to include information on the required levels of savings in the medium term and how they are expected to be achieved, and key performance information against strategic objectives.

WHOLE OF GOVERNMENT ACCOUNTS
Consistency of the Data Collection Tool

BELOW THRESHOLD

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

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

USE OF RESOURCES
Scope of the review

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

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

APPROACH

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

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

We also consider the findings from the following sources:

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

USE OF RESOURCES
Key economy, efficiency and effectiveness matters

SIGNIFICANT AND OTHER RISKS OF MATERIAL MISSTATEMENT

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

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

Key: ■ **Significant risk/issue**

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

USE OF RESOURCES
Key economy, efficiency and effectiveness matters

RISK	WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
FINANCIAL SUSTAINABILITY (continued)	The outturn on the Housing Revenue Account (HRA) in 2014/15 was a £446,000 surplus, against a budgeted surplus of £308,000. There has been an underspend of £1.184 million on the capital programme for council dwelling improvements. Management reported that this is due to timing issues rather than genuine underspends and that the capital programme for 2015/16 has been updated to reflect the re-profiling changes required. In light of the recent announcements made by the Chancellor in relation to a change to the convergent rents formula that will be replaced with a formula that requires a 1% decrease in rents each year, for four years, commencing from 1 April 2016 the Council is considering how this will impact on its HRA Business Plan. It is likely that future HRA surpluses and the capital programme could be significantly reduced. The council tax balance in the collection fund was in surplus at 31 March 2015 by £447,000, of which the Council's share was £61,000. The Council reported a collection rate of 96.13% for the year. This was below the target of 96.25% and prior year performance of 96.87%. The Council collected around £32.3 million of non domestic rates during the year which means under the business rate retention scheme the Council retains 40% of this, after deducting the £10.3 million for tariff payment and levy payable to the Government and the Council's share of £1 million provision for non domestic rate appeals. The collection rate for the year was 97.48%. This was above the target of 96.25%, however it was below prior year performance of 97.71%. A surplus of £1.258 million was achieved on the collection fund for the year, although the overall non domestic rates balance at 31 March 2015 is still in deficit by £1.789 million due to the charge for appeals in the prior year. The Council has set a balanced budget for 2015/16. It includes a savings requirement of £2.4m which it plans to achieve through a combination of efficiency savings of £1 million, income generation schemes of £500,0000 and reduced contribution to reserves of £900,000. The budget indicates a number of financial risks however the Council is planning to manage these without needing to use reserves for recurring expenditure. The general fund balance is forecast at £4 million for 31 March 2016. This remains well above the Council's approved minimum level of £2 million. The 2015/16 budget also includes a £152,000 contingency allowance for unforeseen risks that may arise.	

USE OF RESOURCES

Key economy, efficiency and effectiveness matters

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

USE OF RESOURCES CONCLUSION

We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015. We anticipate issuing an unqualified value for money conclusion.

APPENDICES

APPENDIX I: DEFINITIONS

TERM	MEANING
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(Chartered Institute of Public Finance and Accountancy / Local Authority Scotland Accounts Advisory Committee)
SeRCOP	Service Reporting Code of Practice for Local Authorities issued by CIPFA / LASAAC
SOLACE	Society of Local Authority Chief Executives
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

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

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

UNADJUSTED AUDIT DIFFERENCES

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

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

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

IMPACT ON CURRENT YEAR REPORTED PERFORMANCE FOR PRIOR YEAR AUDIT DIFFERENCES

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

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

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

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

APPENDIX II: AUDIT DIFFERENCES

Unadjusted audit differences

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

APPENDIX II: AUDIT DIFFERENCES
Unadjusted audit differences

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

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

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

APPENDIX II: AUDIT DIFFERENCES

Unadjusted audit differences: Group accounts

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

APPENDIX III: MATERIALITY

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

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

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

We have no reason to revise our final materiality level.

Triviality was based on 2% of materiality.

APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
CONTROL ENVIRONMENT				
Journals The Council's financial policies only require formal authorisation for journals over £100,000. Internal Audit's testing of the financial ledger system in the year noted that there were 1,020 journals under £100,000 in the financial year to 12th December 2014. Insufficient review of journals below the threshold for formal authorisation increases the risk of undetected fraud and error.	Management should implement Internal Audit's recommendation to implement a check on journals under £100,000.	Agreed. A monthly 'sense' check will be carried out on who completes journals and the volumes.	Financial services manager	December 2015
Non current asset disposals Our testing of property, plant and equipment disposals identified three assets which were held at nil net book value and treated as disposals although these assets are still held by the Council. The total cost of these assets is £1.040 million. The Council's records of all assets held will not be complete if assets are removed from the fixed asset register before they are formally disposed of or scrapped.	Management should carry out an annual review of fully depreciated assets, including circularisation of departments where necessary, to determine whether fully depreciated assets: • should be removed from the fixed asset register if they are no longer owned by the Council • should be written down on a gross basis if no longer in use • should be revalued if they are in use and have a material value to the Council.	Agreed. An annual review will be carried out.	Senior accountant	June 2016
Access to the fixed asset register The fixed asset register is maintained through an Excel document that is not password protected and does not provide trails of changes. In the absence of appropriate access controls over the fixed asset register there is a risk of unauthorised changes that could impact on the accounts.	The Council should implement password access controls for the fixed asset register.			

APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN

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

APPENDIX V: STATUTORY AND PROFESSIONALLY REQUIRED COMMUNICATIONS

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

APPENDIX VI: DRAFT REPRESENTATION LETTER

TO TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP
55 Baker Street
London
W1U 7EU

23 September 2015

Dear Sirs

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(a) Pension fund assumptions

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

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

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

(b) Valuation of housing stock

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

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

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

(c) Carrying value of land and buildings

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

(d) Non-domestic rates appeals provision

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

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

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

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

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

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

Yours faithfully

Alan Osborne

Chief Finance Officer

23 September 2015

Councillor Swansborough

Chair of the Audit and Governance Committee

Signed on behalf of the Audit and Governance Committee

23 September 2015

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