EASTBOURNE BOROUGH COUNCIL

AUDIT FINDINGS REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE

Audit for the year ended 31 March 2016 - Issued to the Audit and Governance Committee - 16 September 2016

PURPOSE AND USE OF THIS REPORT

We present our report to the Audit and Governance Committee which details the key findings arising from the audit for the attention of those charged with governance. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two way communication throughout the audit process.

As auditors we are responsible for performing our audit in accordance with International Standards on Auditing (UK & Ireland) which provide us with a framework which enables us to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and providing our value for money conclusion. As the purpose of the audit is for us to express an opinion on the financial statements and provide a value for money conclusion, 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.

This report has been prepared solely for the use of the Audit and Governance Committee. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person.

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

CONTENTS

SUMMARY

AUDIT SCOPE AND OBJECTIVES

- We have completed our audit procedures in accordance with the planned scope and our objectives have been achieved, subject to the resolution of matters set out in the ‘Outstanding Matters’ section of this report
- There were no significant changes to our planned audit approach nor were any restrictions placed on our work
- No additional significant audit risks were identified during the course of our audit procedures subsequent to our audit planning report to you dated 17 February 2016
- Our materiality levels have not required reassessment since our audit planning referred to above.

KEY AUDIT AND ACCOUNTING MATTERS

- The key matters that have arisen in the course of our audit are summarised below:
  i. There were no differences that have been corrected in the revised draft financial statements that affect the reported surplus for the year. However, a number of amendments to classifications and disclosures have been made, as detailed in the ‘Key Audit and Accounting Matters’ section of this report.
  ii. There are three unadjusted audit differences identified by our audit work this year which would increase the draft surplus on the provision of services in the Consolidated Income and Expenditure Statement by £52,000 to £7.367 million (from £7.315 million) if adjusted.
  iii. Two control weaknesses have been identified in relation empty property exemptions and housing benefit and council tax reduction scheme overpayment recovery.

AUDIT OPINION

- Subject to the successful resolution of outstanding matters set out in the ‘Outstanding Matters’ section of this report, we anticipate issuing an unqualified opinion on the financial statements for the year ended 31 March 2016
- The financial table included within the Narrative Report (Section 2: General Fund), does not agree to note 16: Amounts reported for resource allocation purposes. Management has agreed to include a note in the Narrative Report to explain why the financial information is not consistent
- We have no matters to report in relation to the annual governance statement
- We are satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources and we anticipate issuing an unqualified value for money conclusion for the year ended 31 March 2016.

OTHER MATTERS

- The Council is below the audit threshold for a full assurance review of the Whole of Government Accounts (WGA) return. We will submit the relevant sections of the assurance statement to the National Audit Office (NAO) as soon as we have issued our financial statements opinion.
- Our observations on the quality of the audit and our audit independence and objectivity and related to matters are set out in Appendices VIII and V below.

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT AUDIT RISKS

We reported our risk assessment, which brought to your attention areas that require additional or special audit consideration and are considered significant audit risks, in the 2015/16 audit planning report dated 17 February 2016. These significant risks have been highlighted in red and findings have been reported in the following table.

We have since undertaken a more detailed assessment of risk following the completion of our review of the Council's internal control environment and draft financial statements, and we have not identified any additional significant risks.

NATURE OF RISK	RISK DESCRIPTION AND RELATED CONTROLS	HOW THE RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
MANAGEMENT OVERRIDE OF CONTROLS	Auditing standards presume that a risk of management override of controls is present 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 to the financial statements. We also reviewed accounting estimates for evidence of possible bias and obtained an understanding of the business rationale of significant transactions that appeared to be unusual.	No issues have been identified in our review of the appropriateness of journal entries and other adjustments made to the financial statements. Our work on accounting estimates has not identified any evidence of bias.
REVENUE RECOGNITION	Auditing standards presume there is a risk of fraud in relation to revenue recognition. In particular, we consider there to be a significant risk in respect of the completeness, existence and accuracy of fees and charges recognised as revenue in the Comprehensive Income and Expenditure Statement.	Our review of revenue recognition has focused on testing completeness and existence of fees and charges across all service areas within the CIES.	No issues have been identified by our testing of revenue from fees and charges.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

NATURE OF RISK	RISK DESCRIPTION AND RELATED CONTROLS	HOW THE RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
GROUP ACCOUNTS (continued)	The Council holds 49% of the voting rights and 21% of the non-voting rights in Greencoat House Ltd (which has a wholly owned subsidiary called Welbeing) and 25% of the shares in CloudConnX. These are considered to be associates, as the Council has significant influence but not control over these organisations. However, historically the Council has not included these organisations in its Group Accounts as their transactions have not been material. Welbeing has now completed its third year of operation and our planning identified a possibility that accumulated retained profits have increased to a material level. This would require the transactions in both Welbeing and CloudConnX, if cumulatively material, to be included in the Council's Group Accounts, using equity accounting. The Council has a wholly owned subsidiary called Eastbourne Homes Investment Company (EHIC). Our planning identified a possibility that in 2015/16 EHIC's accounts may be material to the Council, in which case it will need to be consolidated into the Council's Group Accounts. The Council also has another wholly owned subsidiary, Eastbourne Homes Ltd (EHL), for which Group Accounts have historically been prepared. There is a risk that income, expenditure, assets and liabilities in the Group Accounts will not be complete if the Council does not account for its share of material transactions in Welbeing and CloudConnX, and if the Council does not consolidate a material interest in EHIC.	We have reviewed the financial statements of Welbeing, CloudConnX and EHIC, and their management accounts as their year ends are prior to 31 March 2016, to determine if they need to be included in the Council's Group Accounts. We reviewed the Council's processes and controls for adjusting FRS 102 accounts to IFRS for all Group entities. We have reviewed the Group Accounts and checked that assets, liabilities, income and expenditure and relevant disclosures have been correctly consolidated.	<u>Greencoat House Ltd (Welbeing) and CloudConnX</u> Our review of the financial statements has identified that transactions in relation to Greencoat House Ltd and Welbeing have not been correctly consolidated into the Council's Group Accounts. However, as the combined transactions in respect of Greencoat House Ltd and Welbeing accounts are not material management has confirmed that the single entity and Group Accounts will be amended (as follows) to account for the Council's investment in Greencoat House Ltd at cost (as per previous years): • Reduce long term investments by £44,000 • Reduce available for sale financial instrument reserve (unusable) and associated Surplus in Other Income in the CIES by £44,000. Transactions in respect of CloudConnX are not material nor are they material if combined with Greencoat House Ltd and Welbeing, therefore we are satisfied that the entity has not been included in the Group Accounts. We recommend that the Council continues to review the combined transactions (post acquisition retained profits/losses) of Greencoat House Ltd, Welbeing and CloudConnX in future years and if material ensure that the organisations are consolidated into the Group Accounts in accordance with CIPFA Code requirements.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

NATURE OF RISK	RISK DESCRIPTION AND RELATED CONTROLS	HOW THE RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
GROUP ACCOUNTS (continued)	In addition, EHL, Welbeing and CloudConnX have previously prepared their financial statements under UK GAAP. The Financial Reporting Council (FRC) has, from 1 January 2015, replaced UK GAAP with FRS 102 for small and medium-sized entities. The transition to FRS 102 will change not only the format of, and disclosures in, these organisations' financial statements but also the criteria for recognition of some assets and liabilities, the measurement basis of some items and the treatment of some gains and losses. The Council will need to convert the financial statements prepared under FRS 102 for group entities to IFRS when including them in the Group Accounts. There is therefore a risk that income, expenditure, assets, liabilities and disclosures in the Group Accounts may not be accurately adjusted from FRS 102 to IFRS, as this is the first year of implementation and there may be some complex accounting adjustments required.	As above.	Eastbourne Homes Ltd (EHL) and Eastbourne Homes Investment Company (EHIC) These two wholly owned subsidiaries have been correctly consolidated in the Group Accounts. Our testing has not identified any issues in respect of the transition from FRS102 to IFRS in the consolidation into the Group Accounts for the two companies.

KEY AUDIT AND ACCOUNTING MATTERS

Continued

OTHER AUDIT RISKS AND ACCOUNTING ISSUES

We report below our findings of the work designed to address all other risks identified in our 2015/16 audit planning report and any other relevant audit and accounting issues identified as a result of our audit:

NATURE OF ISSUE	WORK PERFORMED	CONCLUSION
EXPENDITURE ACCRUAL	We tested a sample of expenditure accruals to confirm the existence and accuracy of creditors and expenditure as at 31 March 2016.	Our testing identified that an accrued amount in respect of ICT support and maintenance costs had been overstated by £53,000. Management expected that the cost would be £98,000 based on the information available at the time the estimate was made. However, the amount invoiced after 31 March 2016 was only £45,000. Additional testing has been carried out and no further errors have been identified in respect of creditor accruals. Management has confirmed that the overstated accrual of £52,000 will not be adjusted in the financial statements. We have reported this as an unadjusted error in Appendix II.
TENANCY AGREEMENTS	We tested a sample of HRA income and reviewed the associated tenancy agreements to confirm the existence and accuracy of the income.	As a result of this testing we noted that one tenancy agreement could not be found. We have carried out alternative audit procedures to confirm the existence and accuracy of HRA income for this case and found no issues. We recommend that management carries out a thorough review to determine if there are other signed tenancy agreements that can not be located and take appropriate action to rectify the issue. We have included this recommendation in Appendix III.
NARRATIVE REPORTING	The Council is required to produce a 'Narrative Report' replacing the Explanatory Foreword in the financial statements. We have reviewed the Narrative Report to ensure information is consistent with our understanding of the Council and with the accounts.	We have found that the financial table included within the Narrative Report (Section 2: General Fund), does not agree to note 16: Amounts reported for resource allocation purposes. Management has explained that this is because the information was prepared at different points in time and given that further adjustments have been made to note 16 to recognise statutory accounting adjustments, the two sets of information can not be reconciled. Management has agreed to include a note in the Narrative Report to explain why the financial information is not consistent.
FRAUD AND ERROR	We enquired of management regarding any instances of fraud in the period, and considered throughout the audit the possibility of material misstatements due to fraud or error. We are not aware of any instances of fraud other than housing benefit, council tax reduction, tenancy and housing application fraud committed against the Council.	Our audit procedures have not identified any material errors due to fraud.

KEY AUDIT AND ACCOUNTING MATTERS

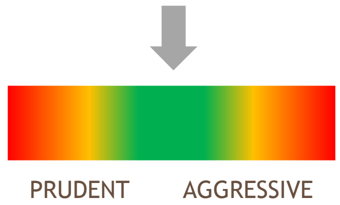
Continued

ACCOUNTING ESTIMATES

Our views on significant estimates, including any valuations of material assets and liabilities, arrived at the preparation of your financial statements are set out below.

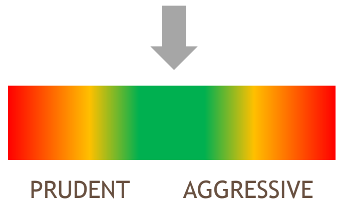
We have assessed how prudent or aggressive the estimate is based on the level of caution applied by management in making the estimate under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenditure are not understated.

ESTIMATES	AUDIT FINDINGS AND CONCLUSIONS
PROPERTY, PLANT & EQUIPMENT (PPE) AND INVESTMENT PROPERTY VALUATIONS Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) and investment properties is not materially different to the current value or fair value at the Balance Sheet date. The valuation for housing dwellings and land and buildings included in PPE is a management estimate based on market values or depreciated replacement cost (DRC). Management uses external valuation data to assess whether there has been a material change in the value of classes of assets and periodically (minimum of every five years) employs an external expert (valuer) to undertake a full valuation. The indices available to management to assess valuation changes are produced independently and are based on observable data (asset sales and building contract prices). The Code of Practice on Local Authority Accounting 2015/16 (the Code) introduced a change in the basis of valuation of surplus assets and investment properties under International Financial Reporting Standard (IFRS) 13, from existing use value (in the case of surplus assets) or market value (in the case of investment properties) to a 'highest and best use' valuation. This means that valuations may be significantly different in certain circumstances.	Property, plant and equipment (excluding surplus assets) As at 31 March 2016 PPE (excluding surplus assets) increased by £11,442 million due to indexation (the majority being attributable to council dwellings). The year end review by the valuer indicates an increase of 8% for council dwellings, an increase of 8.8% for DRC assets and no change for assets valued at existing use. We reviewed the valuations provided and the valuation methodology applied, and confirmed that the basis of valuation for assets valued in year is appropriate based on Code requirements. We compared the valuations to expected movements using available market information and concluded that the movements are within expectations. Investment properties and surplus assets As at 31 March 2016 investment properties increased by a net gain of £66,000 and surplus assets increased by £16,000 due to a marginal increase in the market as at the year end. This is in line with our expectations based on highest and best use. After discussing the valuation methodology with the valuer, we are satisfied that the observable inputs used to value the assets have been disclosed as 'level 2' in the financial statements. We note that the European Public Real Estate Association (EPRA), a leading trade association, has suggested that in the majority of cases investment property valuations are likely to be level 3 valuations due to the extent of unobservable inputs or individual assumptions for each property. We will keep this under review as generally accepted practice develops.



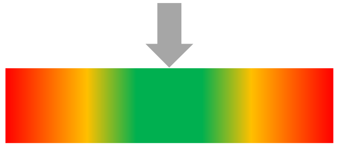
KEY AUDIT AND ACCOUNTING MATTERS
Continued

ESTIMATES	AUDIT FINDINGS AND CONCLUSIONS
PENSION LIABILITY ASSUMPTIONS The 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 2016 net pension liabilities disclosed in the Balance Sheet decreased by £5.915 million compared to the balance at 31 March 2015. 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 2016 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: • an increase in the salary increase rate from 4% to 4.1% • an increase in the discount rate from 3.1% to 3.4% (to place a current value on the future liabilities through the use of a market yield of corporate bonds). These changes have resulted in the decrease in the present value of the scheme liabilities at 31 March 2016. 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. We are satisfied that the assumptions used are not unreasonable or outside of the expected ranges.

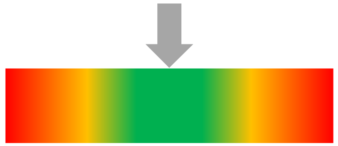


KEY AUDIT AND ACCOUNTING MATTERS
Continued

ESTIMATES	AUDIT FINDINGS AND CONCLUSIONS
ALLOWANCE FOR NON-COLLECTION OF RECEIVABLES The Council's largest allowances for impairment of receivables relate to housing benefit overpayments and collection fund receivables for council tax and non domestic rates. In 2014/15 the Council implemented a new revenues and benefits system. There were some issues with migration of data from the old system and as a result collection of aged debt reduced. The Council uses historical collection and write off information to calculate a percentage that is applied to housing benefit overpayments, council tax and non-domestic rates aged debt that are unlikely to be collected. As the collection of aged debt may have reduced over the last year, as a result of implementing the new system, we have reviewed percentage rates previously applied to aged debt to ensure that they remain appropriate to use in 2015/16 when calculating the allowance. (continued)	**Housing benefit overpayments** The impairment allowance at 31 March 2016 is £3.12 million, a decrease of £630,000 from the prior year, against an overpayments balance of £3.75 million. The impairment rates applied to invoiced housing benefit overpayments are supported by actual write off rates. The Council has reviewed its aged debt in 2015/16 to determine the collectability of those debts and as a result has written off £260,000 of aged debt compared to a write-off of £35,000 in the prior year. Impairment rates have therefore reduced to reflect the fact that remaining aged debt is more likely to be collected, thereby reducing the overall impairment allowance for housing benefit overpayments. A provision percentage of 65% has been applied to amounts being recovered from ongoing entitlement. This rate is 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. We are satisfied that the assumptions underpinning the impairment allowance calculation are reasonable. **Council tax arrears** The council tax provision at 31 March 2016 is £2.6 million. The Council's share is £343,000, a decrease of £76,000 from the prior year. We are satisfied that the impairment allowance calculation is based on actual write-off rates and is reasonable.



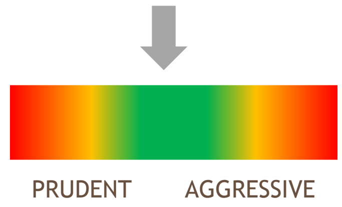
PRUDENT AGGRESSIVE

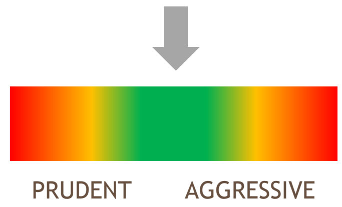


PRUDENT AGGRESSIVE

KEY AUDIT AND ACCOUNTING MATTERS
Continued

ESTIMATES	AUDIT FINDINGS AND CONCLUSIONS
ALLOWANCE FOR NON-COLLECTION OF RECEIVABLES (continued)	**Non domestic rate arrears** The Non domestic rate arrears provision at 31 March 2016 is £470,000. The Council's share is £188,000, a decrease of £53,000 from the prior year. Our review identified that a ten year average write-off rate was used in the formula to calculate the impairment allowance however only 7 years' worth of write-off data has been used by management to assess the allowance to be made. Therefore, it would be more appropriate to use a 7 year average rather than 10 years. Management has recalculated the impairment allowance which has resulted in a reduction of £44,000 compared to the amount included in the draft financial statements. Management has confirmed that the provision will not be adjusted in the financial statements. This has been reported as an unadjusted difference in Appendix II as an overstatement of £44,000 in respect of the housing rent arrears impairment allowance.
NON DOMESTIC RATES APPEALS PROVISION Since the introduction of the Business Rate Retention scheme effective from 1 April 2013, local authorities are liable for the successful appeals against non domestic rates charged to businesses in 2012/13 and earlier financial years in their proportionate share. We have reviewed the reasonableness of the assumptions applied and compared this to information available for recent appeals.	The provision as at 31 March 2016 is £1.45 million, a decrease of £496,000 from the prior year, and the Council's share of this balance of £580,000. The Valuation Office rating list of appeals and the analysis of successful appeals to date is used when calculating the estimate of total provision at year end. Our testing has identified that the provision has been understated by £110,000 (Council's share £44,000), as a result of incorrect data being picked up in the formula when calculating the provision. We have included this as an unadjusted error in Appendix II.





KEY AUDIT AND ACCOUNTING MATTERS
Continued

FINANCIAL STATEMENT DISCLOSURES
Our views on the sufficiency and content of your financial statements' disclosures are set out below:

DISCLOSURE AREA	AUDIT FINDINGS AND CONCLUSIONS
POST BALANCE SHEET EVENTS - BREXIT	In light of the referendum vote for the UK to leave the EU and the consequential uncertainties in the political and economic environment, the Financial Reporting Council (FRC) has recommended that financial statements should include a non-adjusting subsequent event note where there has been a significant change in Balance Sheet items, such as pension fund liabilities, since the year end. Management has confirmed that it will include a disclosure in the amended financial statements to highlight any recent volatility in the market.
OTHER DISCLOSURE ISSUES	Management has agreed to make the following presentational and disclosure amendments to the draft financial statements: • Include a £2 million related party transaction disclosure in respect of a loan from Lewes District Council to recognise the shared service arrangements between the councils • £285,000 non domestic rate contribution to the pool to be included in expenditure on the face the CIES rather than netting off income • Include a fair value hierarchy table for financial assets and liabilities in financial instruments disclosures • Minor amendments to the audit fee note • Amendments to the prior year comparatives exit package and officer remuneration disclosures to agree to prior year financial statements • Amendments to table 18.2: PPE revaluations, to include valuations as at 31 March 2016 • Corrections to disclosures relating to the Council's accounting for its investment in Greencoat House Ltd • Amendments to the capital adjustment account disclosure to ensure consistency with note 7: Adjustments between accounting basis and funding basis under regulations, note 18: PPE, note 20: Investment properties and note 29: Revaluation reserve.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

OTHER MATTERS

We are required to communicate certain other matters to you. We deal with these below, either directly or by reference to other communications.

	MATTER	COMMENT
1	Our responsibility for forming and expressing an opinion on the financial statements	See our audit planning report to you dated 17 February 2016.
2	An overview of the planned scope and timing of the audit	See our audit planning report to you dated 17 February 2016.
3	Significant difficulties encountered during the audit	We have no matters to report.
4	Significant matters arising from the audit that were discussed with management or were the subject of correspondence with them, and any other matters arising from the audit that in our judgment are significant to the oversight of the financial reporting process	We have no matters to report.
5	Written representations which we seek	These are reproduced at Appendix VII.
6	Any fraud or suspected fraud issues	We have no matters to report.
7	Any suspected non-compliance with laws or regulations	We have no matters to report.
8	Uncorrected misstatements, including those relating to disclosure	A schedule of uncorrected misstatements is included at Appendix II.
9	Significant matters in connection with related parties	All relevant matters have been included within this report.

OUTSTANDING MATTERS

We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2016, and anticipate issuing an unqualified opinion on the financial statements.

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 at which this report is considered:

1. Clearance of outstanding query in relation to differences between note 16: amounts reported for resource allocation and CIES.
2. Review of final draft financial statements for agreed amendments
3. Subsequent events review
4. Management representation letter, as attached in Appendix VII to be approved and signed

OTHER REPORTING MATTERS

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

	MATTER	COMMENT
1	The draft financial statements, within the Statement of Accounts, was prepared and provided to us for audit on 30 June 2016. 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.	We have no matters to report.
2	We are required to review the draft Annual Governance Statement and be satisfied that it meets the disclosure requirements in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007. We are also required 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 Council's review of effectiveness and our knowledge of the Council.	We are satisfied that the Annual Governance Statement meets the disclosure requirements in 'Delivering Good Governance in Local Government: a Framework' and 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 Council's review of effectiveness and our knowledge of the Council.
3	We are required to read all the financial and non-financial information in the Narrative Report 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.	We have found that the financial table included within the Narrative Report (Section 2: General Fund), does not agree to note 16: Amounts reported for resource allocation purposes. Management has explained that this is because the information was prepared at different points in time and given that further adjustments have been made to note 16 to recognise statutory accounting adjustments, the two sets of information can not be reconciled. Management has agreed to include a note in the Narrative Report to explain why the financial information is not consistent.

CONTROL ENVIRONMENT

Deficiencies and 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 Council's 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 controls 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 controls.

We did not identify any significant control deficiencies but there are control weaknesses that have been identified by Internal Audit and which impact on the key financial systems that we consider should be reported to the Audit and Governance Committee:

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE
EMPTY PROPERTY EXEMPTIONS	Internal Audit's testing of empty property exemptions on the Open Revenues system identified a number of errors and failure to correctly bill for Council Tax. • Class Q (Bankruptcy) exemptions had been incorrectly applied to four accounts for properties owned by a property company that had entered Administration in 2012 • Class B (Owned by a Charity) exemptions had been applied to five accounts for a registered social housing provider that has not got charitable status. • A Class D (Left empty by a Prisoner) had not been changed following a new Council tenancy starting at the property in November 2014, meaning that the current tenant had not been billed for council tax. In the first two cases, there was an inconsistent approach to billing the liable party as they had been billed for other empty properties and those bills had been paid.	Council tax bills and related income could be misstated if exemptions are not applied correctly.	Internal Audit has recommended that consideration be given to a review of empty property exemptions at or near to the point they are newly applied to accounts, to ensure a consistent and accurate approach and prompt billing.	Management stated the errors identified are historical. However it will be raised with staff to be more vigilant. Refresher workshop to be organised. New processes should mean exemptions are reviewed annually per account rather than by bulk review.

CONTROL ENVIRONMENT

Other deficiencies and observations Continued

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE
HOUSING BENEFIT AND COUNCIL TAX REDUCTION SCHEME OVERPAYMENT RECOVERY	Internal Audit identified that weekly system reports and a year-end report run in February 2016 showed numerous claims where benefit had been overpaid and were not currently subject to active recovery, either from available ongoing benefit payments or by way of a sundry debtor invoice being raised. The same issue was raised in the 2014/15 year audit and testing indicates it remains to be properly addressed. There is no specific checking of the weekly reports targeting appropriate recovery or write off of overpayments on the system. There appears to be a training need to raise awareness and user confidence amongst the Caseworkers when dealing with overpayments. There are overpayments on the 2015/16 year-end report with no active recovery that were also on the year-end report for 2014/15 indicating that resources have not been committed to addressing the system backlog and considering write off or recovery of overpayments that were created prior to the 2015/16 year.	The Council will need to consider increasing its write-off of housing benefit and council tax reduction overpayments if insufficient recovery action is being taken.	Internal Audit has recommended that controls must be in place to ensure overpaid benefit is consistently subject to recovery, either from ongoing benefit or a sundry debtor account and the backlog of overpayments is periodically reviewed.	Management stated checks will be made on new claims for outstanding debt and a report has been run of outstanding debt and overpayments are being reviewed.

WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

MATTER	COMMENT
Auditors are required to review Whole of Government Accounts (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.	We will submit the relevant sections of the assurance statement to the National Audit Office (NAO) as soon as we have issued our financial statements opinion.

USE OF RESOURCES

Key informed decisions, deployed resources and sustainable outcomes

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 reporting criterion:

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

There are three sub criteria that we consider as part of our overall risk assessment:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties.

We reported our risk assessment, which included use of resources significant risks, in the 2015/16 planning report issued on 17 February 2016. 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, and we have not included any additional significant risks. We report below our findings of the work designed to address the significant risks and any other relevant use of resources work undertaken.

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
SUSTAINABLE FINANCES: **2015/16 performance**	Our planning identified a risk regarding the challenging level of savings in the Council's financial plans. As a starting point for assessing the Council's financial sustainability, we have assessed financial performance to date and monitored the delivery of budgeted savings in 2015/16. **General Fund** In 2015/16, the Council originally budgeted for a decrease in the general fund of £890,000, before transfers to earmarked reserves. There were some variances in the year but the final position against the revised budget was an underspend of £205,000, which was largely due to savings on contracts and increased income. This resulted in the Council using £584,000 of its general fund balance to support services and transferring £1.033 million to earmarked reserves. The general fund balance at 31 March 2016 is £3.283 million, which remains above the £2 million minimum level recommended by the Section 151 Officer. The balance on general fund earmarked reserves at 31 March 2016 is £6.068 million and the increase in the year is to cover any revenue shortfalls for venues and services that may be affected by the Devonshire Park redevelopment. The Council achieved £1.04 million of its efficiency savings and income generation savings target of £1.501 million in 2015/16, under its corporate transformation programme and Sustainable Service Delivery Strategy.	The Council has a track record of delivering underspends in the General Fund. The level of savings achieved in 2015/16 was below target, however this was due to delays in programme implementation and they are being delivered in 2016/17. The general fund balance and earmarked reserves provide sufficient headroom to act as a potential buffer against future risks and create further opportunities for one off investments.

USE OF RESOURCES
Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
SUSTAINABLE FINANCES: **2015/16 performance** **(continued)**	**Housing Revenue Account (HRA)** The movement in the HRA in 2015/16 was a £528,000 surplus, against a budgeted surplus of £232,000, resulting in an HRA balance of £3.678 million at 31 March 2016. Total HRA earmarked reserves totalled 2.232 million at 31 March 2016, an increase of £916,000 from the prior year. The increase was due to actual depreciation being lower than the budgeted level.	There are reasonable levels of HRA reserves to support the sustainability of the 30 year HRA Business Plan. The Business Plan is being updated to take account of the substantial reform to the HRA brought about by the Housing and Planning Act 2016.
	Collection Fund The council tax balance in the Collection Fund was in surplus by £1.403 million at 31 March 2016, of which the Council's share was £189,000. This reflects growth in the tax base, changes in entitlements to discounts and lower than projected council tax support scheme awards. The Council reported a collection rate of 97.05% for the year, which is higher than prior year performance of 96.13%. The Council collected around £34 million of non domestic rates during the year. Under the non domestic rates retention scheme the Council retains 40% of this, after deducting the £10 million for tariff payment and levy payable to the Government and the Council's share of £1.450 million provision for non domestic rate appeals. The collection rate for the year was 97.63%, which was above prior year performance of 97.48%. A surplus of £181,000 was achieved on the non domestic rates Collection Fund for the year. However, the overall non domestic rates balance at 31 March 2016 is still in deficit by £1.608 million due to charges for appeals against business rate valuations.	The overall Collection Fund is in deficit by £205,000 at 31 March 2016, which is an improvement on the prior year deficit balance of £1.342 million. Collection rates on both council tax and non domestic rates were below target for the year however performance has improved compared to the prior year. We are satisfied that the Collection Fund is being adequately monitored and managed.

USE OF RESOURCES
Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
SUSTAINABLE FINANCES: **Medium term**	The Medium Term Financial Strategy (MTFS) approved by Cabinet in July 2015, covering the four year period from 2016/17 to 2019/20, identified a base funding gap of £2.4 million over the period. This equates to an average level of required savings of £600,000 per annum. The MTFS was updated again in July 2016 and this now indicates an average level of required savings of £930,000 per annum over the period. Our planning identified a risk that achieving the required level of savings going forward will require further difficult decisions around service provision and alternative service delivery models. We have reviewed the reasonableness of the assumptions in the MTFS, including the level of Government grant reductions expected, cost pressures and savings requirement. The MTFS contains assumptions about the future funding of the Council, national and local economic factors, the level of pay and non-pay inflation and a range of savings targets. Over the medium term, the Council expects the net budget requirement to reduce from £15.7 million in 2016/17 to £13.3 million in 2019/20 and its revenue support grant (which amounts to £2.7 million in 2015/16) will cease in 2019/20. The Council plans to balance its finances over the medium term by delivering savings of £3.8 million alongside projected growth in income from council tax. There are a number of key development and transformation projects in place under the Council's Sustainable Service Delivery Strategy to deliver savings from its Future Model, shared transformation costs, procurement, service efficiencies and increased income generation.	We are satisfied that the MTFS reflects known savings and cost pressures and that the key underlying assumptions regarding central government funding and income from taxation are not unreasonable. The Council understands the risks involved across its financial planning assumptions and that these will continue to require careful management. While there is a recognised funding gap in the MTFS, we are satisfied that the Council has appropriate arrangements to remain financially sustainable over the period of the MTFS.

USE OF RESOURCES
Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
SUSTAINABLE FINANCES: **Transformation project**	The Council is currently in the process of undergoing a major Joint Transformation Programme (JTP) with Lewes District Council to provide more flexible, customer focused and cost effective services, both in the provision of frontline services and the organisation of back office functions. Our planning identified a risk that the MTFS does not adequately take account of the investment costs and savings associated with this project. We reviewed the arrangements in place for the Council to make informed decisions in relation to the programme. In particular, we considered how the Council understands and uses reliable financial information to make decisions and how it supports the delivery of strategic priorities, as well as reviewing the governance structures and processes in making decisions. We also reviewed the business case, including sensitivity analysis of future outcomes, for the transformation programme. In September 2015 Cabinet approved a strategy for the JTP, which took account of the findings from a major shared services review commissioned from Improvement and Efficiency Social Enterprise (iESE). A joint team of officers across the two councils worked with Ignite Consulting Limited to develop the detailed business case. Activity mapping and analysis was used to inform the savings estimates. The work on the business case was monitored and steered by the Joint Transformation Programme Board, which consists of the leaders, deputy leaders and leaders of the main opposition parties of both councils. The detailed business plan was approved by Cabinet in May 2016. The Council's share of planned savings from the JTP is £1.2 million over the four year MTFS period, which is in line with the JTP business case approved by Cabinet. The business case projects total savings of £2.8 million for the two councils, with an equivalent reduction of 79 full time equivalent posts across both councils. The Council will achieve a lower proportion of the programme benefits because it has already delivered significant savings through its Future Model programme and the JTP inherits the savings target from Lewes District Council's cancelled New Service Delivery Model programme. Total combined investment required specifically to deliver the JTP is £5.6 million, of which the Council's share is approximately £2.4 million. These costs will be largely met from the Council's earmarked reserves for strategic change and capital programme, which total £2.5 million at 31 March 2016.	We are satisfied that the strategic objectives of the programme are in line with the Council's corporate vision. Adequate arrangements were in place to support decision making for the business case and appropriate governance processes have been established to oversee delivery of the project. The projected savings and investment from the programme have been adequately considered and factored into planning assumptions.

USE OF RESOURCES
Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
SUSTAINABLE FINANCES: **Devonshire Park complex**	The Council has embarked on a major £44 million project to significantly improve the current Devonshire Park complex. The project includes restoring the Devonshire Park Theatre, Winter Garden and Congress Theatre; demolishing the existing Congress suite buildings and Devonshire Park pavilions and creating a new reception building; reburbishment of peripheral buildings and improvements to the International Tennis Court. Costs totalling £2.2 million have been incurred in 2015/16 on 'Devonshire Park Review Stage 1-4a' in preparation for the procurement in 2016/17. The Council's five year capital programme indicates that the investment is to be funded by a combination of capital receipts and borrowing. Throughout 2015 the Council worked with external consultants to review the best future governance options for the project and a decision is due to be made by Cabinet in September 2016.	The Devonshire Park complex project is still in its early stages. However given the scale of the project, it is important that robust governance and risk management arrangements are maintained as the project develops.

USE OF RESOURCES
Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
VALUE FOR MONEY PROFILE TOOL	The Audit Commission, and now Public Sector Audit Appointments Ltd, provides auditors with a Value for Money Profile Tool of comparative financial data for all local authorities. This is available at www.vfm.psaa.co.uk. We have reviewed the reports available with data populated in July 2016, which includes mainly 2014/15 outturn costs, comparing the Council with all other district councils. The report highlights that the Council's overall net spend per head in 2014/15 was in the highest 5%, as was the planned net spend per head for 2015/16. As a result, reserves as a percentage of net current expenditure are also relatively low. This is partly due to the following outliers, using 2014/15 data: • Spend on culture and sport is in the highest 5% • Spend on housing services per head is in the highest 25% • Spend on council tax benefits and housing benefits administration per head is in the highest 20% • Net spend on council tax collection per head is in the highest 10%. On the positive side, income from sales, fees & charges as a percentage of total spend is in the highest 20%. The relatively high spend on culture and sport is due to the Council's strategic focus on leisure and tourism, including theatres, and consequently sales, fees and charges are also relatively high in this area. There are a number of initiatives in the Council's corporate plan to maximise contributions from these assets, which bring both financial benefits to the Council and non-financial benefits to the borough. The relatively high spend on housing services is partly due to regional variations in contract prices. From 2016/17 the Council has managed to negotiate a slight reduction in the management fee that it pays to its housing management company and further reductions over the next few years will bring the Council closer to the average. A change in the council tax and housing benefits system in 2014/15 is likely to have contributed to the higher than average spend on council tax and housing benefits administration and council tax collection in that year. Another outlier in 2014/15 was the percentage of major planning applications determined in 13 weeks, which was in the worst 5%. This is not a significant concern as it only related to one application in 2014/15, for which an extended timetable was agreed.	The reasons for the relatively high net spend in the Council are understood by management and either reflect the Council's strategic objectives (such as the relatively high spend on culture and sport) or there are plans in place to address areas for improvement. The aim of the transformation programme with Lewes District Council is to drive efficiencies and reduce the Council's overall cost base.

APPENDICES

APPENDIX I: DEFINITIONS

TERM	MEANING
The Council	Eastbourne Borough Council
'Those charged with governance'	The persons with responsibility for overseeing the strategic direction of the Council and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance for the Council are the members of the Audit and Governance Committee.
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.
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.
The '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
SOLICE	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

There were no differences that have been corrected in the revised draft financial statements that affect the reported surplus for the year. However, a number of amendments to classifications and disclosures have been made, as detailed in the 'Key Audit and Accounting Matters' section of this report.

UNADJUSTED AUDIT DIFFERENCES

There are three unadjusted audit differences identified by our audit work this year which would increase the draft surplus on the provision of services in the CIES by £52,000 to £7.367 million (from £7.315 million) if adjusted.

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.

We have also separately reported the impact of brought forward prior year uncorrected misstatements and their impact on the current year performance (see below). 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. Overall, the impact of prior year misstatements on current year performance would increase the reported underlying surplus for the current year by £132,000:

- £237,000 over accrual of non domestic rates levy payable corrected in 2015/16
- £105,000 under accrual of non domestic rates section 31 grants corrected in 2015/16.

APPENDIX II: AUDIT DIFFERENCES
UNADJUSTED AUDIT DIFFERENCES

		INCOME AND EXPENDITURE		BALANCE SHEET	
UNADJUSTED AUDIT DIFFERENCES	**£'000**	**DR £'000**	**CR £'000**	**DR £'000**	**CR £'000**
Surplus on the provision of services	**(7,315)**				
Dr Council dwellings				61	
Cr Capital adjustment account					(61)
Impact of brought forward misstatements relating to the revaluation increase calculation (judgement misstatements) - final impact after reversing the statutory adjustments from the general fund					
Dr Short-term creditors – other bodies				52	
Cr Expenditure	(52)		(52)		
Over accrual of ICT support and maintenance expenditure (factual misstatement)					
Dr Short-term debtors – other local authorities				44	
Cr Expenditure - Impairment allowance for doubtful debts – non domestic rate arrears	(44)		(44)		
Overstatement of the non domestic rate arrears impairment allowance					
Dr Non domestic rates expenditure – taxation and non specific grant income		44			
Cr Non domestic rates appeals provision	44				(44)
Understatement of the non domestic rates appeals provision (the Council's share)					
TOTAL UNADJUSTED AUDIT DIFFERENCES	**(52)**	**44**	**(96)**	**157**	**(105)**
Surplus on the provision of services if adjustments accounted for	**(7,367)**				

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

AREA	CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT REPSONSE	RESPONSIBILITY	TIMIMG
FINANCIAL STATEMENTS					
GROUP ACCOUNTS	Our review of the financial statements identified that transactions in relation to Greencoat House Ltd (holding company for Welbeing) and Welbeing had not been correctly consolidated into the Group Accounts.	We recommend that the Council continues to review the combined transactions (retained profits/losses) of Greencoat House Ltd, Welbeing and CloudConnX in future years and if material ensure that the organisations are consolidated into the Group Accounts in accordance with CIPFA Code requirements.	Agreed	Financial Services Manager	Year end April 2017
TENANCY AGREEMENTS	Our testing of HRA income found that one tenancy agreement could not be found. We carried out alternative audit procedures to confirm the existence and accuracy of HRA income for this case and found no issues.	We recommend that management carries out a thorough review to determine if there are other signed tenancy agreements that can not be located and take appropriate action to rectify the issue.	We are aware that we have missing tenancy agreements, largely relating to older tenancies. This has no impact on our ability to take legal action with regard to the tenancy (and this has been tested in court). The tenancy agreement in place at the time is taken as correct and we have other information with regard to the tenancy. This is not unusual in housing organisations. In order to determine which tenancy agreements are missing we would need to check every tenancy and we do not view this as proportionate as there are no risks associated with the agreement being missing.	N/A	N/A

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

AREA	CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT REPSONSE	RESPONSIBILITY	TIMIMG
CONTROL ENVIRONMENT					
EMPTY PROPERTY EXEMPTIONS	Internal Audit's testing of empty property exemptions on the Open Revenues system identified a number of errors and failure to correctly bill for Council Tax. • Class Q (Bankruptcy) exemptions had been incorrectly applied to four accounts for properties owned by a property company that had entered Administration in 2012 • Class B (Owned by a Charity) exemptions had been applied to five accounts for a registered social housing provider that has not got charitable status. • A Class D (Left empty by a Prisoner) had not been changed following a new Council tenancy starting at the property in November 2014, meaning that the current tenant had not been billed for council tax. In the first two cases, there was an inconsistent approach to billing the liable party as they had been billed for other empty properties and those bills had been paid.	Internal Audit has recommended that consideration be given to a review of empty property exemptions at or near to the point they are newly applied to accounts, to ensure a consistent and accurate approach and prompt billing.	Management stated the errors identified are historical. However it will be raised with staff to be more vigilant. Refresher workshop to be organised. New processes should mean exemptions are reviewed annually per account rather than by bulk review.	Manager Customer First (Account Management)	Sept 16

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

AREA	CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT REPSONSE	RESPONSIBILITY	TIMIMG
CONTROL ENVIRONMENT					
HOUSING BENEFIT AND COUNCIL TAX REDUCTION SCHEME OVERPAYMENT RECOVERY	Internal Audit identified that weekly system reports and a year-end report run in February 2016 showed numerous claims where benefit had been overpaid and were not currently subject to active recovery, either from available ongoing benefit payments or by way of a sundry debtor invoice being raised. The same issue was raised in the 2014/15 year audit and testing indicates it remains to be properly addressed. There is no specific checking of the weekly reports targeting appropriate recovery or write off of overpayments on the system. There appears to be a training need to raise awareness and user confidence amongst the Caseworkers when dealing with overpayments. There are overpayments on the 2015/16 year-end report with no active recovery that were also on the year-end report for 2014/15 indicating that resources have not been committed to addressing the system backlog and considering write off or recovery of overpayments that were created prior to the 2015/16 year.	Internal Audit has recommended that controls must be in place to ensure overpaid benefit is consistently subject to recovery, either from ongoing benefit or a sundry debtor account and the backlog of overpayments is periodically reviewed.	Management stated checks will be made on new claims for outstanding debt and a report has been run of outstanding debt and overpayments are being reviewed.	Manager Customer First (Case Management)	Sept 16

APPENDIX IV: MATERIALITY

MATERIALITY - FINAL AND PLANNING

	FINAL	PLANNING
Materiality	£2,000,000	£2,000,000
Clearly trivial threshold	£40,000	£40,000

Planning materiality for the authority has been based on 2% of the prior year gross expenditure. The clearly trivial amount is based on 2% of the materiality level.
We had no reason to revise our final materiality level.

APPENDIX V: INDEPENDENCE

INDEPENDENCE - ENGAGEMENT TEAM ROTATION		
SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDED
JANINE COMBRINCK - Engagement lead	1st year as engagement lead and 2 years as project manager	2019/20
KERRY BARNES - Project manager	1st year as project manager	2024/25

APPENDIX V: INDEPENDENCE

Continued

INDEPENDENCE - THREATS TO INDEPENDENCE AND APPROPRIATE SAFEGUARDS

We have provided audit services in respect of certain grant claims and returns that do not form part of the Code audit or mandated certification work as directed by Public Sector Audit Appointments Limited. These are recorded on the following page and their fees are not considered significant in relation to the audit fees.

We have recorded details of non audit services provided in relation to BDO's tax subscription service (noted on the following page). We have reviewed the service provided and have not identified any potential threats to our independence as the auditor of Eastbourne Borough Council's financial statements.

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

We confirm that the firm complies with the FRC's Ethical Standards and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement lead and audit staff is not impaired.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

APPENDIX VI: FEES SCHEDULE

	2015/16	2014/15		
	£	£	THREATS TO INDEPENDENCE ARISING	SAFEGUARDS APPLIED AND WHY THEY ARE EFFECTIVE
Audit fee	67,781	90,374	N/A	N/A
Certification fee (Housing benefits subsidy claim)	8,297	18,713	N/A	N/A
TOTAL AUDIT FEE	76,078	109,087		
Reporting on government grants:				
- Pooling of Housing Capital Receipts return	1,500	1,500	The threat to auditor independence from Audit Related Services is clearly insignificant	No safeguards required
Fees for non audit services – BDO tax subscription services	2,500	2,500	The threat to auditor independence from Non Audit Related Services is clearly insignificant	No safeguards required
TOTAL ASSURANCE SERVICES	80,078	113,087		

APPENDIX VII: DRAFT REPRESENTATION LETTER

TO BE TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP
55 Baker Street
London
W1U 7EU

<Date> September 2016

Dear Sirs

Financial statements of Eastbourne Borough Council for the year ended 31 March 2016

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 2016 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 2015 and Statement of responsibilities of auditors and of audited bodies: local government issued by Public Sector Audit Appointments (PSAA), and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2016 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 2015, 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 other than the note already disclosed in the financial statements in relation to Brexit. 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 international financial reporting standards 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.

APPENDIX VII: DRAFT REPRESENTATION LETTER
Continued

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.

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 inflation (CPI): 2.1%
- Rate of increase in salaries: 4.1%
- Rate of increase in pensions: 2.1%
- Rate of discounting scheme liabilities: 3.4%
- Take up option to convert the annual pension into retirement grant:
  - Pre 31 March 2008: 50%
  - 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, other land and buildings and investment properties

We are satisfied that the useful economic lives of the housing stock and other land and buildings, and their constituent components, used in the valuation of the housing stock and other land and buildings, and the calculation of the depreciation charge for the year, are reasonable.

We confirm that the valuations applied to council dwellings and other land and buildings indexed in the year, as provided by the valuer and accounted for in the financial statements, are reasonable and consistent with our knowledge of the business and current market prices.

We are satisfied that investment properties have been appropriately assessed as Level 2 on the fair value hierarchy for valuation purposes and valued at fair value, based on highest and best use.

c) Allowance for non-collection of receivables

We are satisfied that the impairment allowances for council tax and non domestic rates receivables and housing benefit overpayments are reasonable, based on write-off rates or collection rate data.

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 by the Valuation Office Agency. We confirm that the successful rates applied to outstanding appeals as at 31 March 2016 are 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.

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.

APPENDIX VII: DRAFT REPRESENTATION LETTER

Continued

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and 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. Each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Alan Osbourne

Deputy Chief Executive (Chief Finance Officer)

[date]

Councillor Swansborough

Chair of the Audit and Governance Committee

Signed on behalf of the Audit and Governance Committee

[date]

APPENDIX VIII: AUDIT QUALITY

BDO is totally committed to audit quality. It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. BDO welcome feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US firms), the firm undertake a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years. We have also implemented additional quality control review processes for all listed and public interest audits.

We seek to make improvements and address weaknesses identified from both external and internal quality reviews. Where issues have been identified an action plan is put in place. These plans may relate to individual assignments, individual offices to be firm-wide and in each instance the outcome of these actions is subject to monitoring and have been the subject of our analysis of root causes. The actions may include, but are not necessarily limited to , one or more of the following:

- The implementation, where appropriate, of relevant training for the engagement team where the issue is team specific;
- The revision and production of additional guidance in connection with the firm's audit approach where we identify that an issue is more wide-spread;
- The development and delivery of firm-wide training;
- Amendments and/or enhancements to stream policies and procedures.

FOR MORE INFORMATION:

JANINE COMBRINCK

Engagement lead

T: 0207 893 2631

E: janine.combrinck@bdo.co.uk

KERRY BARNES

Project manager

T: 0207 893 3837

E: kerry.l.barnes@bdo.co.uk

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

www.bdo.co.uk