



EASTBOURNE BOROUGH COUNCIL

AUDIT COMPLETION REPORT

Audit for the year ended 31 March 2017

12 September 2017



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SUMMARY

AUDIT SCOPE AND OBJECTIVES

Audit status	We have substantially completed our audit procedures in accordance with the planned scope and our objectives have been achieved, subject to resolution of matters set out in the outstanding matters section on page 5.
Audit risks	No additional risks were identified during the course of our audit procedures subsequent to our Planning Report to you dated 27 February 2017, however we have increased the risk level for our previously reported risk for pension liability assumptions from a normal risk to a significant risk following a review of the draft financial statements which indicated a significant movement in investment account classification from the prior year.
Materiality	Our final materiality is £2.1 million (no change from that reported in the Planning Report in February 2017).
Changes to audit approach	There were no significant changes to our planned audit approach nor were any restrictions placed on our audit.

KEY AUDIT AND ACCOUNTING MATTERS

Material misstatements	Subject to successful resolution of our queries regarding the values of council dwellings and other land and buildings in the prior year figures following professional valuations as at 1 April 2016, our audit identified no material misstatements.
Adjusted misstatements	Our audit identified one immaterial adjusted misstatement. Investment properties and trading income and expenditure were recognised within cost of services rather than within financing and investment income and expenditure as per the Code. Management have reclassified the £2.092 million of income and £958,000 of expenditure within the revised financial statements. A similar adjustment has been made for the prior year comparatives whereby income has changed by £1.966 million and expenditure by £900,000. Both adjustments have been correctly amended within the group comprehensive income and expenditure statement. A few presentational changes have been made to the financial statements as a result of the audit.
Unadjusted audit differences	Subject to completion of outstanding matters set out on page 5, no non-trivial misstatements were identified by our audit this year. We have reported in Appendix I an understatement of expenditure of £53,000 due to overstatement of expenditure in the prior year, which would decrease the surplus on provision of services to £38.305 million if adjusted.
Control environment	Our audit did not identify any significant deficiencies in internal controls.

SUMMARY

KEY MATTERS FROM OUR AUDIT OF USE OF RESOURCES

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

Financial statements	Subject to the successful resolution of outstanding matters set out on page 5, which are largely procedural, we anticipate issuing an unmodified opinion on the financial statements for the year ended 31 March 2017.
Annual Governance Statement	We have no exceptions to report in relation to the consistency of the Annual Governance Statement with the financial statements or our knowledge.
Use of resources	We anticipate issuing an unmodified opinion on the use of resources for the year ended 31 March 2017.

OTHER MATTERS FOR THE ATTENTION OF THE AUDIT AND GOVERNANCE COMMITTEE

Whole of Government Accounts (WGA)	The Council is below the audit threshold for a full assurance review of the WGA Data Collection Tool. We will submit the relevant section of the assurance statement to the National Audit Office prior to the statutory deadline.
Audit independence	Our observations on our audit independence and objectivity and related matters are set out in Appendix IV. No issues were identified.
Audit certificate	We will issue our audit certificate after we have completed our work on the financial statements and use of resources.

INTRODUCTION

PURPOSE AND USE OF THIS REPORT

We present our Audit Completion 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 use of resources. As the purpose of the audit is for us to express an opinion on the financial statements and use of resources, 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.

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 welcomes feedback from external bodies and is committed to implementing 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.

More details can be found in our latest Transparency Report at www.bdo.co.uk.

OUTSTANDING MATTERS

We have substantially completed our audit work for the year ended 31 March 2017, and anticipate issuing unmodified opinions on the financial statements and use of resources. 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 meeting at which this report is considered:

- 1 Conclusions on where or not a prior period adjustment is required for significant variances between the formal valuation of council dwellings and other land and buildings as at 1 April 2016 and the values included in the prior year financial statements as at 31 March 2016

- 2 Receipt of responses to our enquiries of RSM Tenon, as the component auditors for Eastbourne Homes Investment Company Limited

- 3 Internal quality control review process

- 4 Subsequent events review

- 5 Final review and approval of the financial statements

- 6 Management representation letter, as attached in Appendix VI, to be approved and signed

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT RISKS

We assessed the following matters as audit risks as identified in our earlier Planning Report dated 27 February 2017. Below we set out how these risks have been addressed and the outcomes of our procedures.

Key: ■ Significant risk ■ Normal risk

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
1 ■ Management override of controls	<p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity.</p> <p>They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.</p> <p>Under International Standards on Auditing (UK and Ireland) 240, there is a presumed significant risk of management override of the system of internal controls.</p>	<p>We reviewed the appropriateness of journal entries and other adjustments made in the preparation of the financial statements.</p> <p>We obtained an understanding of the business rationale for significant transactions that are outside the normal course of business for the Council or that otherwise appear to be unusual, if any.</p> <p>We reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represented a risk of material misstatements due to fraud.</p>	<p>Our audit work in relation to journals has not identified any significant issues.</p> <p>We have not found any indication of management bias in accounting estimates.</p> <p>Our views on significant management estimates are included below.</p> <p>No unusual entries or transactions outside of the normal course of business were identified.</p>

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
2	<p>Revenue recognition</p>	<p>Under auditing Standards there is a presumption that income recognition presents a fraud risk. For local authorities, the risks can be identified as affecting the completeness, accuracy and existence of income.</p> <p>We consider there to be a significant risk in relation to the existence and completeness of fees and charges recorded in the Comprehensive Income and Expenditure Statement (CIES).</p>	<p>We tested an increased sample of fees and charges to underlying documentation, to cover the existence and accuracy of transactions throughout the year.</p> <p>We are in the process of testing an increased sample of receipts either side of year end, to confirm that income has been recorded in the correct period and that all income that should have been recorded at year end has been.</p> <p>No issues have been identified by our testing of revenue from fees and charges throughout the year.</p> <p>No issues have been identified by our testing of receipts either side of year end.</p>

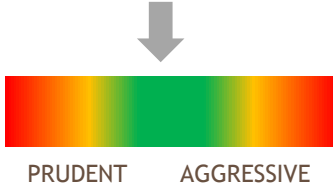
KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
<p>3 Valuation of non-current assets</p>	<p>Local authorities are required to ensure that the carrying value of non-current assets is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date.</p> <p>The Council appointed an external valuer to carry out a full revaluation as at 1 April 2016, and a further desktop review was performed as at 31 March 2017.</p> <p>Due to the significant value of the Council's non-current assets, and the high degree of estimation uncertainty where valuations are based on assumptions, there is a risk over the valuation of non-current assets.</p>	<p>We reviewed the instructions provided to the valuer and the valuer's skills and expertise in order to determine if we could rely on the management expert.</p> <p>We checked that the basis of valuation for assets is appropriate, including whether an instant build modern equivalent asset basis has been used for assets valued at depreciated replacement costs, and that investment properties and surplus assets have been valued based on 'highest and best use.'</p> <p>We reviewed valuation movements against independent data showing indices of price movements for similar classes of assets. We followed up valuation movements that appear unusual against indices, or any assets which may have had material movements since the last valuation.</p>	<p>From our review of the instructions provided to the valuer and assessment of the expertise of the valuer, we are satisfied that we can rely on this work.</p> <p>For the sample of property, plant and equipment (PPE) assets and investment properties reviewed we are satisfied that the basis of the valuation for each asset is appropriate and that the revaluation movements have been correctly accounted for.</p> <p>Our review of the reasonableness of valuation assumptions applied is noted on the following page.</p>

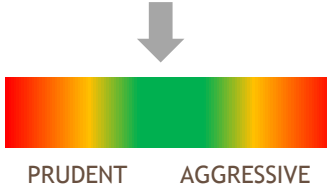
KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES

Land, buildings, dwellings and investment property valuations

ESTIMATE	AUDIT FINDINGS	AUDIT CONCLUSION
<p>Land and buildings are valued by reference to existing use market values</p> <p>Dwellings are valued by reference to open market value less a social housing discount</p> <p>Some specialist buildings are valued at depreciated replacement cost by reference to building indices</p> <p>Investment properties are valued by reference to highest and best use market value</p>	<p><u>Valuations as at 1 April 2016</u></p> <p>The formal valuation of PPE assets as at 1 April 2016 was significantly different from the values included in the prior year financial statements as at 31 March 2016, which had been indexed each year since the last formal valuation on 1 April 2011. The Council accounted for revaluation increases of £36.355 million for HRA council dwellings and £25.561 for general fund other land and buildings as at 1 April 2016.</p> <p>We have challenged the assumptions used by the valuer and are in the process of assessing whether the prior year values were correctly based on the best available information at the time that the 2015/16 financial statements were certified and whether additional information became available to the valuer since its prior year end desktop review. If this is not the case, a prior period adjustment will be required.</p> <p>The explanation provide by management for the significant increase in HRA assets is the Council's annual write-off of replaced components at the same value of the addition recognised, which in effect assumed that no material depreciation had been recognised before they were replaced. The valuation has confirmed that the Council's capital programme was increasing the value of the dwellings, which wasn't reflected in the closing net book value of assets in the prior years. We note that the valuations at 1 April 2017 were commissioned by the Council in December 2016, after the 2015/16 financial statements were certified. Given this new information from the valuation, management should reassess the appropriateness of using capital programme additions as a proxy for the value of disposals of replaced components (see recommendation at Appendix II).</p> <p>We have reviewed the movements in asset valuations for general fund assets as at 1 April 2016 to the last formal valuation as at 1 April 2011 and the prior year closing net book value. The valuer has provided explanations for significant movements in assets where more recent information was available at the time of the formal valuation, including changes in property occupation and rental values.</p>	 <p>PRUDENT AGGRESSIVE</p>

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES		
Land, buildings, dwellings and investment property valuations (continued)		
ESTIMATE	AUDIT FINDINGS	AUDIT CONCLUSION
	<p><u>Valuations as at 31 March 2017</u></p> <p>For council dwellings, the Council has applied indexation of 3.5% for the year, resulting in an increase of £6.408 million at year end, based on information on price movements provided by the valuer. This is considered reasonable in comparison to regional trends of property prices in the South East which indicate an increase of 3.8%.</p> <p>For specialised other land and buildings valued on a depreciated replacement cost basis, the Council has applied indexation of 3% for the year, based on information on price movements provided by the valuer. This has resulted in an increase of £1.688 million at year end, which is considered reasonable in comparison to a 3.27% increase in national build costs per independent market data.</p> <p>For other land and buildings valued on an existing use basis, no indexation was applied as the valuer confirmed that there were no material price movements in the year. This is considered reasonable compared to the movement in Investment Property Databank (IPD) capital values per independent market data, which indicates a decrease of only 0.1%.</p> <p>All investment properties were revalued as at 31 March 2017 and a fair value gain of £216,000 is recognised in the financial statements, an increase of 4%. This compares to the national indices for IPD rental values that increased by 1.83%, which is not materially different from the movements applied.</p>	 <p>PRUDENT AGGRESSIVE</p>

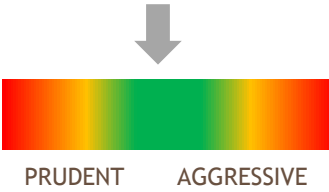
KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
<p>4</p> <p>Pension liability assumptions</p>	<p>The net pension liability comprises the Council's share of the market value of assets held in the East Sussex County Council's Pension Fund and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p> <p>This has been increased from a normal risk to a significant following a review of the draft financial statements which indicated a significant movement in investment account classification from the prior year.</p>	<p>We agreed the disclosures to the information provided by the pension fund actuary.</p> <p>We used the PwC consulting actuary report to review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data and to review of the actuary's methodology.</p> <p>We obtained assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.</p> <p>We checked whether any significant changes in membership data were communicated to the actuary.</p>	<p>From our review of the pensions note in the draft financial statements and the supporting actuarial report, we noted that there had been a significant movement from investments with quoted prices not in active markets ('level 2' in the fair value hierarchy) to investments with quoted prices in active markets ('level 1' in the fair value hierarchy) compared to the prior year. Further to our enquiries, management queried the classification with East Sussex County Council, the pension fund administrators. Following further investigation, the actuary issued revised reports which reclassified investment funds and unit trust equities and bonds from level 1 to level 2. Management has agreed to amend the financial statements for these revised classifications.</p> <p>We did not identify any other issues regarding the accuracy of the disclosures in the financial statements or the accuracy and completeness of data provided by the pension fund to the actuary.</p> <p>We have reviewed the letter of comfort from the Head of Accounts and Pensions at East Sussex Pension Fund regarding the transfer of liability to the Council for Lewes District Council staff (further information on this provided under risk 6 below) and the actuary has referred to the fact that the majority of Lewes staff transferred into Eastbourne within their IAS 19 report to management.</p> <p>Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations is noted on the following page.</p>

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES

Pension liability assumptions

ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT CONCLUSION																																								
<p>The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows</p>	<p>The actuary has used the following assumptions to value the future pension liability:</p> <table border="1"> <thead> <tr> <th></th> <th>Actual used</th> <th>Actuary range</th> <th>PwC assessment of actuary range to market expectations</th> </tr> </thead> <tbody> <tr> <td>CPI increase</td> <td>2.4%</td> <td>2.4%</td> <td>Reasonable and within expected range</td> </tr> <tr> <td>Salary increase</td> <td>2.8%</td> <td>-</td> <td>Reasonable (Employer and scheme specific)</td> </tr> <tr> <td>Pension increase</td> <td>2.4%</td> <td>2.4%</td> <td>Reasonable and within expected range</td> </tr> <tr> <td>Discount rate</td> <td>2.5%</td> <td>2.5-2.7%</td> <td>Reasonable and within expected range</td> </tr> <tr> <td colspan="4">Mortality - LGPS:</td> </tr> <tr> <td>- Male current</td> <td>22.1 years</td> <td>21.5-22.8</td> <td>Reasonable</td> </tr> <tr> <td>- Female current</td> <td>24.4 years</td> <td>24.1-25.1</td> <td>Reasonable</td> </tr> <tr> <td>- Male future</td> <td>23.8 years</td> <td>23.7-24.4</td> <td>Reasonable</td> </tr> <tr> <td>- Female future</td> <td>26.3 years</td> <td>26.2-26.9</td> <td>Reasonable</td> </tr> </tbody> </table> <p>PwC concluded: <i>We are comfortable that the methodologies used to establish assumptions will produce reasonable assumptions at 31 March 2017 for all employers.</i></p>		Actual used	Actuary range	PwC assessment of actuary range to market expectations	CPI increase	2.4%	2.4%	Reasonable and within expected range	Salary increase	2.8%	-	Reasonable (Employer and scheme specific)	Pension increase	2.4%	2.4%	Reasonable and within expected range	Discount rate	2.5%	2.5-2.7%	Reasonable and within expected range	Mortality - LGPS:				- Male current	22.1 years	21.5-22.8	Reasonable	- Female current	24.4 years	24.1-25.1	Reasonable	- Male future	23.8 years	23.7-24.4	Reasonable	- Female future	26.3 years	26.2-26.9	Reasonable	 <p style="text-align: center;">↓</p> <p style="text-align: center;">PRUDENT AGGRESSIVE</p>
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KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
<p>5</p> <p>Changes in presentation of the financial statements</p>	<p>The Code of Practice on Local Authority Accounting requires a change to the presentation of some areas of the financial statements. This includes:</p> <ul style="list-style-type: none"> • Change to the format of the Comprehensive Income and Expenditure Statement (CIES) • Change to the format of the Movement in Reserves Statement (MIRS) • New Expenditure and Funding Analysis (EFA) note • Change to the Segmental Reporting note • New Expenditure and Income analysis note. <p>These changes required a restatement of the comparative figures.</p> <p>There was a risk that these presentational changes may not have been correctly applied in the financial statements.</p>	<p>We reviewed the draft financial statements and checked these against the CIPFA Disclosure Checklist to ensure that all of the required presentational changes have been correctly reflected within the financial statements.</p> <p>We confirmed that the analysis by service in the CIES is consistent with the internal reporting within the Council.</p> <p>We reviewed the restatement of the comparative 2015/16 information to ensure that this is presented consistently with the current year basis.</p>	<p>Our audit identified the following issues which will be amended in the revised financial statements:</p> <ul style="list-style-type: none"> • Some of the figures in the Expenditure and Funding Analysis do not agree to the general fund outturn information in the Narrative Report. We have suggested that a further reconciliation is disclosed to explain the differences. • Investment properties and trading income and expenditure were recognised within cost of services rather than within financing and investment income and expenditure as per the Code. Management have reclassified the £2.092 million of income and £958,000 of expenditure. A similar adjustment has been made for the prior year comparatives whereby income has changed by £1.966 million and expenditure by £900,000. Both adjustments have been correctly amended within the group comprehensive income and expenditure statement. • The 2015/16 figures in the Income and expenditure analysed by nature note did not agree to the CIES, with both income and expenditure being misstated by £257,000. <p>We identified that the segmental income note has analysed fees and charges by service, however the note does not included segmental information on other revenue, such as grants and contributions. This has not been adjusted for by management in the revised financial statements.</p>

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION	
6	<p>Recharges between the Council and Lewes District Council</p>	<p>The Council is currently in the process of undergoing a major Joint Transformation Programme (JTP) with Lewes District Council to merge frontline services and back office functions. In February 2017, the vast majority of Lewes District Council employees were transferred to the employment of the Council. Recharging arrangements are in place for each of five service areas (Corporate Management Team, Legal Services, Information Technology, Human Resources and Asset Management).</p> <p>There is a risk over the completeness and accuracy of the payroll information transferred from the Lewes payroll system (Midland Trent) onto the Eastbourne payroll system (Chris21).</p> <p>On a monthly basis the Council calculates, based on these arrangements, the amount to be recharged via invoice back to Lewes District Council. There is a risk over the completeness and accuracy of these recharges.</p> <p>As the risks and rewards of these arrangements are shared by both Councils, the transactions should be accounted for on a net basis within each Council's financial statements. There is a risk that these transactions may not be correctly presented in the Council's financial statements, thereby overstating income and expenditure.</p> <p>Manual adjustments are required by the Council in calculating the senior officers' remuneration disclosures. There is a risk over the completeness and accuracy of these disclosures.</p>	<p>We planned to review the work performed by internal audit to test the migration of data from the Lewes to Eastbourne payroll systems. Internal audit did not complete any additional procedures on the transfer as they were able to rely on the work by the payroll team, and so we reviewed this testing. Lewes District Council also performs its own monthly checks on the recharged amounts on an employee level basis and so Eastbourne Borough Council relies on this check to gain assurance over the accuracy and completeness of the employee costs.</p> <p>We reviewed the reasonableness and accuracy of the recharge arrangements in place between the Councils and the manual adjustments made to record shared employee and other costs on a net accounting basis.</p> <p>We reviewed the senior officer's remuneration note to ensure that the disclosures for senior managers and employees earning over £50,000 are complete and accurate and that the Council's share of the costs are in line with the relevant recharge arrangement.</p>	<p><u>Transfer of payroll data:</u></p> <p>We have reviewed the data migration work completed by the Council's payroll team, and we have performed our own check to confirm that all of the transferred employees have been correctly added to the Eastbourne system.</p> <p>We tested a sample of employees who transferred from the Lewes to Eastbourne payroll to check that they were transferred at the correct rate and no issues were identified.</p> <p><u>Recharging arrangements:</u></p> <p>For the five service lines which are operating full shared service arrangements under phase one of the JTP, there are set percentages in place for the amounts to be recharged, which are between 40% and 50% per service.</p> <p>We reviewed the Cabinet board minutes and also held discussions with management of both Councils. We obtained the service level agreement for Legal Services. Minutes of the Cabinet meeting in May 2016 confirmed that delegated authority was given the Deputy Chief Executive to determine the appropriate split of JTP costs and benefits. We further reviewed the schedules prepared by the lead Council which details the contribution of each Council for each of the Asset Management, IT, Human Resources and the Corporate Management team services.</p> <p>Overall we are satisfied that the governance structures in relation to the recharging arrangements are appropriate.</p>

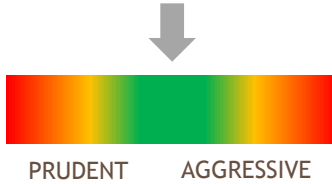
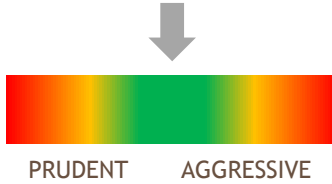
KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
6	Recharges between the Council and Lewes District Council (continued)	As above.	<p>As above.</p> <p>The Council has raised two monthly recharge invoices to Lewes District Council for both payroll and other charges for February and March 2017. We agreed these invoices to the Council's supporting calculations, which were also reviewed by Lewes District Council against budgeted expected values prior to the invoices being paid in March 2017.</p> <p>We confirmed that recharge income received from Lewes District Council is correctly netted off the expenditure within the Council's financial statements.</p> <p><u>Officers' remuneration note:</u></p> <p>The Senior Management Remuneration table correctly includes all senior officers who are on the Council's payroll (being all except the Assistant Director of Legal and Democratic Services who has remained an employee of Lewes District Council along with a small number of other employees within the legal services team). The gross amounts are disclosed in the note along with the percentages which are recharged to both Lewes District Council and Eastbourne Homes Limited.</p> <p>The remuneration table for employees earning over £50,000 correctly excludes those that are fully recharged to Lewes District Council but we have advised management to clearly state this in the revised financial statements.</p> <p>The exit packages table clearly states both the number and cost of departures on the Council's payroll and those recharged to Lewes District Council.</p>

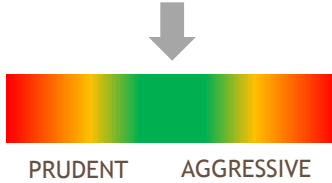
KEY AUDIT AND ACCOUNTING MATTERS

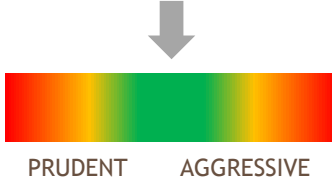
AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
<p>7 Group accounts</p>	<p>The Council holds 49% of the voting rights and 21% of the non-voting rights in Greencoat House Limited (holding company for Welbeing) and 25% of the shares in CloudConnX. These are considered to be associates, as the Council has significant influence but not control over these organisations. Historically the Council has not included these organisations in its Group Accounts as their transactions have not been material. Welbeing has now completed its fourth year of operation and it is possible that accumulated retained profits have increased to a material level. This would require the transactions in both Welbeing and CloudConnX, if cumulatively material, to be included in the Council's Group Accounts, using equity accounting.</p> <p>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.</p>	<p>We reviewed the financial statements and management accounts of Welbeing and CloudConnX, to determine if they need to be included in the Council's Group Accounts on the grounds of materiality.</p> <p>We reviewed the Group Accounts and checked that assets, liabilities, income and expenditure and relevant disclosures have been consolidated into the Council's Group Accounts where necessary.</p>	<p>Transactions in respect of Greencoat House Limited, Welbeing and CloudConnX are not material, therefore we are satisfied that these entities have not been appropriately excluded from the Group Accounts.</p> <p>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.</p> <p>The Council's 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 these two companies.</p>

KEY AUDIT AND ACCOUNTING MATTERS

OTHER SIGNIFICANT ACCOUNTING ESTIMATES		
ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT CONCLUSION
Estimate of refunds for successful non domestic rates (NDR) appeals	<p>The provision as at 31 March 2017 is £1.405 million, a decrease of £45,000 from the prior year, and the Council's share of this balance is £562,000.</p> <p>We have reviewed the reasonableness of the assumptions applied and compared this to information available for recent appeals.</p> <p>Management applied different success rates to different types of appeals based on the amounts repaid on appeal in recent years against the amount appealed. This takes into account both the success of a rateable value reduction appeal and for the number of years the appeal is backdated. Success rates range from 0.62% to 62% based on the property description type. This is considered a reasonable basis for estimating the provision for the future refunds from successful appeals. There are only three cases whereby the provision does not relate to historical data and this relates to the purpose built GP surgeries where there is no historical data.</p>	 <p>PRUDENT AGGRESSIVE</p>
Estimate of future write-off for uncollectable debt	<p>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.</p> <p>Housing benefit overpayments</p> <p>The impairment allowance at 31 March 2017 is £2.974 million, a decrease of £155,000 from the prior year, against an overpayments balance of £5.3 million (£1.54 million from ongoing benefit and £3.79 million from former claimants). The impairment rates applied to invoiced housing benefit overpayments are supported by actual write off rates. The Council has reviewed its aged debt in 2016/17 to determine the collectability of those debts and as a result has written off £89,000 of aged debt compared to a write-off of £260,000 in the prior year. Impairment rates have reduced to reflect the fact that the remaining aged debt is more likely to be collected, thereby reducing the overall impairment allowance for housing benefit overpayments.</p> <p>A provision percentage of 48% (compared to 65% in 2015/16) has been applied to amounts being recovered from ongoing entitlement. As there is no analysis available on the debt outstanding being collected from ongoing benefit, it is assumed to be similar to collection rates of year one debts for those invoiced. 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 in the provision.</p> <p>We are satisfied that the assumptions underpinning the impairment allowance calculations are reasonable.</p>	 <p>PRUDENT AGGRESSIVE</p>

KEY AUDIT AND ACCOUNTING MATTERS

OTHER SIGNIFICANT ACCOUNTING ESTIMATES		
ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT CONCLUSION
Estimate of future write-off for uncollectable debt (continued)	<p>Council tax arrears</p> <p>The Council tax provision at 31 March 2017 is £2.5 million. The Council's share is £330,000, a decrease of £13,000 from the prior year.</p> <p>We are satisfied that the impairment allowance calculation is based on actual write-off rates and is reasonable.</p>	 <p>PRUDENT AGGRESSIVE</p>
	<p>Non domestic rates arrears</p> <p>The non domestic rate arrears impairment allowance at 31 March 2017 is £489,000. The Council's share is £196,000, an increase of £8,000 from the prior year.</p> <p>We are satisfied that the impairment allowance calculation is based on actual write-off rates and is reasonable.</p>	



KEY AUDIT AND ACCOUNTING MATTERS

OTHER ISSUES

We comment below on other issues identified in the course of our audit, of which we believe you should be aware:

AUDIT AREA	AUDIT FINDINGS
1	<p data-bbox="208 544 398 568">Other disclosures</p> <p data-bbox="459 544 2089 600">We have identified the following presentational and disclosure misstatements within the draft financial statements as a result of the audit which have been amended by management:</p> <ul data-bbox="459 608 2089 1230" style="list-style-type: none"> <li data-bbox="459 608 2089 663">• Inclusion of explanation in the financial statements about the change in presentation of the CIES, and consequent restatement of comparatives, and updates to associated accounting policies <li data-bbox="459 671 2089 727">• Inclusion of property valuations and indexation and the Council's approach to estimating the value of council dwelling replaced components in the Assumptions made about the future and other major sources of estimation uncertainty note <li data-bbox="459 735 2089 791">• Amendment to remove £3.22 million of capital commitments which were not contractually agreed as at 31 March 2017, and addition of a footnote to explain that a portion of the JTP commitments will be recharged to Lewes District Council <li data-bbox="459 799 2089 855">• Amendments to the valuation of properties note to split out the properties which were last revalued at 1 April 2016 to those last revalued at 31 March 2017 <li data-bbox="459 863 954 887">• Minor amendments to the audit fees note <li data-bbox="459 895 2089 951">• Amendments to the financial instruments note to correct misstatements in comparatives, include cash and cash equivalents and further information on fair value valuation techniques <li data-bbox="459 959 1693 983">• Reclassification within the exit packages note between compulsory redundancies and other agreed departures <li data-bbox="459 991 1756 1015">• Adjustment within the related parties note for the outstanding balance at year-end with Eastbourne Homes Limited <li data-bbox="459 1023 2089 1046">• Adjustment within the post-employment benefits note for the expected contributions to the scheme in 2017/18 to agree to the actuarial report <li data-bbox="459 1054 1995 1078">• Amendment to the vacant possession value of dwellings note to remove a further eight properties which were disposed of during the year <li data-bbox="459 1086 1671 1110">• Disclosure of the business rates revaluation at 1 April 2017 within the Events after the reporting period note <li data-bbox="459 1118 1861 1142">• Some corrections to the entries in the Movement on HRA Statement, although these do not impact on the closing HRA balance <li data-bbox="459 1150 1738 1174">• Further information in the notes to the HRA on the revaluation of HRA stock and the change in social discount rate <li data-bbox="459 1182 1890 1206">• Correction to the net book value of assets as at 31 March 2015 in the Property, plant and equipment note in the Group Accounts. <p data-bbox="459 1270 2089 1326">We have identified the following presentational and disclosure misstatements within the draft financial statements as a result of the audit which will not be adjusted by management:</p> <ul data-bbox="459 1334 1581 1390" style="list-style-type: none"> <li data-bbox="459 1334 1581 1358">• A few immaterial notes, such as assets held for sale and respective accounting policies are included <li data-bbox="459 1366 1397 1390">• The liquidity risk note has not been prepared on the undiscounted cash flows basis

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	AUDIT FINDINGS
2	Fraud and error	<p>We are required to discuss with you the possibility of material misstatement, due to fraud and error, and to reassess this throughout the audit. We enquired of management regarding instances of fraud in the period, and considered throughout the audit the possibility of material misstatement of the financial statements due to fraud and error.</p> <p>We are not aware of any instances of fraud other than housing benefit fraud committed against the Council.</p> <p>Our audit procedures have not identified any material errors due to fraud.</p>

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	<p>The draft financial statements, within the Statement of Accounts, was prepared and provided to us for audit on 30 June 2017.</p> <p>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.</p>
2	<p>We are required to review the draft Annual Governance Statement and 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.</p>
3	<p>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.</p>

CONTROL ENVIRONMENT

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 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 note that the Council's internal audit function has issued a number of observations and recommendations on the Council's control environment during 2016/17. We have not repeated these recommendations in this report unless we consider them to highlight significant deficiencies in control which we are required to report to you.

We are not aware of any significant deficiencies in the Council's internal controls in 2016/17.

We have identified other deficiencies in controls which have been discussed with management and included in the action plan at Appendix II.

WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

MATTER	COMMENT
1 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.	Local authorities' were required to submit the unaudited DCT to HM Treasury and auditors by 7 July 2017. The Council did not meet this deadline. The unaudited DCT was submitted on 13 July 2017 to a due problem with the DCT toolkit, which was subsequently resolved, and delays in preparing the Group Accounts. We will submit the relevant section of the assurance statement to the National Audit Office prior to the statutory deadline.

USE OF RESOURCES

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (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 2016/17 Planning Report issued in February 2017. 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 these significant risks and any other relevant use of resources work undertaken.

Key: ■ Significant risk

USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
Sustainable finances	<p>The Medium Term Financial Strategy (MTFS) to 2019/20 has forecast further reductions in Government core grant funding, falling New Homes Bonus funding from 2017/18 and annual inflationary and pay award pressures. Budget gaps have been identified in 2016/17 (£0.6 million), 2017/18 (£1.1 million), 2018/19 (£1.0 million) and 2019/20 (£1.0 million), resulting in an average level of required savings of £940,000 per annum over the four year period.</p> <p>The Council currently has a number of major development / transformation programmes in place to either help facilitate these savings or create additional revenue streams in the medium term, to close the budget gaps.</p> <p>In our planning report we identified a risk that the MTFS does not adequately take account of the investment costs and savings associated with these projects, and that the Council does not have appropriate arrangements to monitor progress in delivering benefits from these projects against the MTFS.</p> <p>As a starting point for assessing the effectiveness of the Council's arrangement for ensuring sustainable finances, we reviewed current year outturn and the Council's reserves position.</p>	<p>General Fund</p> <p>The Council has a track record of delivering underspends in the General Fund. In 2016/17, the Council originally budgeted for a decrease in the general fund of £1.319 million, before transfers to earmarked reserves. There were some variances in the year but the final position against the revised budget was an underspend of £138,000. This was largely due to savings on contracts and increased income which was partially offset by the re-profiling of JTP savings to 2017/18. This resulted in the Council using £734,000 of its general fund balance to support services, and £112,000 was transferred from earmarked reserves.</p> <p>The general fund balance at 31 March 2017 is £2.661 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 2017 is £5.957 million.</p> <p>Housing Revenue Account</p> <p>The balance on the Housing Revenue Account (HRA) increased by £688,000 in 2016/17, which is £271,000 higher than budgeted. This is due to rental from new properties let at affordable rents, take up of under occupation scheme and reduction in provision for bad debt requirements.</p> <p>Collection Fund</p> <p>The council tax balance in the Collection Fund was in surplus by £1.433 million at 31 March 2017, of which the Council's share was £191,000, a trivial variance compared to 2015/16.</p> <p>The Council collected around £32.6 million of non domestic rates during the year. Under the non domestic rates retention scheme the Council retains 40% of this, after deducting the £10.1 million for tariff payment payable to the Government and the Council's share of the £1.405 million provision for non domestic rate appeals. A deficit of £767,000 was achieved during the year, and the overall position is a deficit of £2.375 million due to charges for appeals against valuations.</p> <p>The overall Collection Fund is in deficit by £942,000 at 31 March 2017, which is a deterioration on the prior year deficit balance of £205,000. However, we are satisfied that the Collection Fund is being adequately monitored and managed.</p>

USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
Sustainable finances (continued)	<p>We reviewed the assumptions used in the MTFS for investment costs and savings associated with major development/transformation programmes.</p> <p>We also reviewed the Council's arrangements for monitoring the progress of these programmes against the budgeted savings targets.</p>	<p>Medium term financial strategy</p> <p>The Council achieved its efficiency savings and income generation target of £588,000, under its transformation programme and revenue generation schemes during 2016/17.</p> <p>An updated MTFS from 2017 - 2021 was approved by Cabinet in July 2017. Revised budget gaps have been identified in 2017/18 (£2 million), 2018/19 (£1.4 million), 2019/20 (£1.0 million) and 2020/21 (£0.8 million), resulting in an average level of required savings of £1.33 million per annum over the four year period. While this is an increase in required savings from the previous MTFS update, the savings for 2017/18 have been identified and relate largely to planned new income streams, the JTP shared transformation programme and procurement savings.</p> <p>Joint transformation programme (JTP) with Lewes District Council to provide joint services</p> <p>As noted on page 14, the Council is currently in the process of undergoing a major Transformation Programme with Lewes District Council, both in the provision of frontline services and the organisation of back office functions.</p> <p>In October 2016, a Joint Efficiency Statement was submitted to the Department for Communities and Local Government (DCLG), which covered sharing of services, asset management, growing the economy and strategic procurement. Management has stated that the Councils were commended by DCLG on their unified approach and would be an exemplary example of such practices going forward.</p> <p>In October 2016, Cabinet approved a three phase delivery of the programme, with Phase one lasting from September 2016 to March 2017 for management and corporate activity to deliver £1.05 million of savings across the two councils. Phase two is in 2017/18, covering frontline services and delivery of a further £1 million of savings, and Phase three is expected to be in 2018/19 with an ongoing review of support services delivering £0.8 million of savings. Although the exact savings figure for Phase one will not be established until the final vacant roles are recruited, management expects to slightly exceed the savings target.</p> <p>Good progress has been made on key technology projects to align the two councils, which includes one network, one telephone system, a joint mobile phone contract, joint e mail domain and joint branding for shared public services. A condition of the Cabinet Office granting permission for the use of the joint domain was to deliver a new joint website but the end of Summer 2017, however this is still in progress. Phase two is now in progress, the largest of the three phases, with appointments expected to be confirmed in November 2017.</p> <p>The Programme has a clear governance structure led by the Programme Board, which meets bimonthly and consists of the leaders and deputy leaders, the leaders of the main opposition group, the Chief Executive and three other Corporate Management Team members. There is also a JTP consultative forum which meets on a bimonthly basis, and includes a range of staff and union representatives.</p> <p>We note that the savings targets currently only include staff costs. A number of other savings are expected by the councils but are not included in the MTFS expectations as they cannot yet be quantified.</p>

USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
Sustainable finances (continued)	As above.	<p>Major project for the enhancement of the current Devonshire Park Complex</p> <p>The Council has embarked on a major £44 million project to significantly improve the 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, and improvements to the International Tennis Court. When it is fully operational, the investment will provide an opportunity to manage the site as a single entity, as currently the functions of the theatres, catering and events are all managed as separate units within the Tourism and Enterprise Directorate.</p> <p>Costs totalling £5.497 million have been incurred in 2016/17 on the project, £3.836 million for the theatre complex and £1.661 million of the tennis facilities, which are both recognised within the assets under construction balance as at 31 March 2017. The Council's five year capital programme indicates that the investment is to be funded by a combination of borrowings and capital receipts.</p> <p>Construction is still ongoing and on budget, and the tennis facilities were completed prior to the International Tournament in June 2017. The risk register of this project is regularly updated. The largest risk was around the subterranean footings of the Welcome Building, which is now complete, and construction for this section was below budget. The majority of the remaining risks are now around the timings of completion and openings of the various stages of the project. The Council is also seeking grant contributions for the project but as this is not confirmed, it has not been included within the MTF5 expectations.</p> <p>Residential and commercial leasing by Eastbourne Housing Investment Company Limited (EHIC)</p> <p>2016/17 has been the first full year of operation for EHIC. It has a mixed portfolio of properties that help meet the Council's strategic objectives. Its largest acquisition was Victoria Mansions, which includes 22 commercial and 26 residential units, and a 125 year lease of the commercial properties was subsequently sold to the Council.</p> <p>In March 2017, Cabinet authorised officers to establish a Joint Housing Investment Partnership with Lewes District Council. Aspiration Homes LLP was incorporated on 30 June 2017 and is a jointly owned entity between the Council and Lewes District Council.</p> <p>In March 2017 Cabinet also approved to allocate up to £30 million in the Council's capital programme to progress the next phase of delivery for EHIC and the first phase of delivery for the partnership, in both cases for the delivery of new mixed tenure homes and associated activities. The benefits of an additional partnership programme is that the rents can be set at affordable levels, as the companies can utilise right to buy receipts, and this still achieves financial viability requirements.</p>

USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
Sustainable finances (continued)	As above.	<p>Procurement for the redevelopment of the Sovereign Centre</p> <p>In December 2016, Cabinet approved the construction of a new leisure centre adjacent to the Sovereign Centre, and to include £24.48 million in the capital programme to fund construction. The current centre is let to Eastbourne Leisure Trust, and the contract with Serco is due to expire in April 2019 with an annual net cost for the Council of £340,000. The initial business plan forecasts that in operational year five the new centre will generate positive cash of £50,000 per annum, after debt costs. Consultation is currently ongoing and the Council intends to use the joint venture energy company (see below) for the project.</p> <p>Procurement for the redevelopment of the Wish Tower Restaurant</p> <p>The Council is planning to use £1.2 million of the £2 million pier grant funding received in 2014/15 for the redevelopment of the Wish Tower to a high class restaurant, which is expected to provide annual of income of £100,000. The site has been awarded to a restaurant after a tendering exercise by the Council. The lease is expected to be agreed shortly and construction to begin in 2018, with completion and income expected from 2019/20. The construction costs are built into the MTFS but the income generation will only be included when it can be quantified more precisely. In September 2017, Cabinet are being asked to approve additional funding of £600,000 which will be recovered by the revenue earned from the rent of the buildings.</p> <p>Procurement for a joint venture energy scheme</p> <p>Cabinet approved the public procurement process for a private sector partner in May 2016. The aim is to deliver a range of projects to meet environmental ambitions whilst also ensuring resilience against future energy and sustainability. The joint venture will offer significant advantages to accelerate the delivery of projects and as a low risk option for the Council. In June 2017, Cabinet approved a preferred bidder, and subject to satisfactory finalisation of the contractual agreements, will be appointed as a partner for 20 years. In July 2017, Cabinet approved the setting up of a new Joint Board for Energy & Sustainability combined with Lewes District Council, which will be overseen through a “Strategic Partnering Agreement”.</p> <p>The start-up costs are expected to be £300,000, to be shared with Lewes District Council. This has already been budgeted for and will be recovered through the fees that will be applied to new projects. The main route for income generation is the returns on investments for particular projects, as well as a management fee of 0.25% to cover its costs. It can also invest in projects as a shareholder or investor and generate further income. The income is expected to be realised from 2017/18 onwards. It is not included in the MTFS but is expected to assist with meeting part of the savings gaps.</p> <p>Conclusion</p> <p>We are satisfied that the MTFS takes accounts of the investment costs associated with the Council’s major transformational projects, and once these scheme are further established, management should be in a better place to forecast all of the associated savings going forward.</p>

APPENDICES

APPENDIX I: 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, and in aggregate, on the financial statements.

ADJUSTED AUDIT DIFFERENCES

Our audit has not identified any material misstatements.

Our audit identified one immaterial adjusted misstatement. Investment properties and trading income and expenditure were recognised within cost of services rather than within financing and investment income and expenditure as per the Code. Management have reclassified the £2.092 million of income and £958,000 of expenditure within the revised financial statements. A similar adjustment has been made for the prior year comparatives whereby income has changed by £1.966 million and expenditure by £900,000. Both adjustments have been correctly amended within the group comprehensive income and expenditure statement.

A few presentational changes have been made to the financial statements as a result of the audit.

UNADJUSTED AUDIT DIFFERENCES

There are no unadjusted audit differences identified by our audit work in 2016/17.

We have reported in the table below the impact of understatement of expenditure of £53,000 due to overstatement of expenditure in the prior year, which would decrease the surplus on provision of services to £38.305 million.

APPENDIX I: AUDIT DIFFERENCES

	£'000	INCOME AND EXPENDITURE		STATEMENT OF FINANCIAL POSITION	
		DR £'000	CR £'000	DR £'000	CR £'000
Surplus on the provision of services before adjustments	(38,358)				
DR Expenditure		53			
CR Opening general fund reserves					(53)
<i>(1) Impact of brought forward unadjusted misstatements (net overstatement of expenditure in the prior year; this could not be corrected in the current year by way of a prior year adjustment as it is not material)</i>					
TOTAL UNADJUSTED AUDIT DIFFERENCES	53	53	(0)	0	(53)
Surplus on provision of services if adjustments accounted for	(38,305)				

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

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

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
ANNUAL REPORT AND ACCOUNTS					
REVIEW OF VALUATIONS	The Council has recognised material movements in council dwellings and other land and buildings between the valuations in the prior year accounts as at 31 March 2016 and the valuations as at 1 April 2016. Management did not obtain full explanations for all significant variances from the valuer, although we note that they did query the valuation a small number of assets including the Redoubt Fortress. As a result of the audit, management queried a number of the valuations with the valuer.	We recommend that management critically reviews the property valuation reports received from the valuer and queries any unexplained significant movements prior to preparing the draft accounts for audit.	Agreed, this was carried out for the 1.4.16 valuations and will be done for any future valuations	Senior Accountant	Annually as part of final accounts process
COUNCIL DWELLINGS REPLACED COMPONENTS	Formal valuations of council dwellings received have indicated that the value of HRA additions may not be a suitable proxy for the value of replaced components. This approach presents a risk that disposals are overstated and closing asset values are understated in the financial statements.	We recommend that management amends its approach for calculating an estimate for the value of depreciated replaced components to recognise as disposals going forward.	Agreed, methodology to be amended for the future	Senior Accountant	31 March 2018
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 consolidated into the Group Accounts on the grounds of materiality. These may become material going forward.	We recommend that the Council continues to review the combined transactions (retained profit/losses) of Greencoat House Ltd, Welbeing and CloudConnX in future years and if material ensure that the organisations are consolidated into the Council's Group Accounts in accordance with CIPFA Code requirements.	Agreed	Senior Accountant	Annually as part of final accounts process

APPENDIX III: MATERIALITY

MATERIALITY - FINAL AND PLANNING		
	FINAL	PLANNING
Council Materiality	£2,100,000	£2,100,000
Group Materiality	£2,100,000	£2,100,000
Clearly trivial threshold	£42,000	£42,000

Planning materiality of £2,100,000 was based on 2% of prior year gross expenditure. We had no reason to revise our final materiality level.

APPENDIX IV: INDEPENDENCE

We confirm that the firm complies with the Financial Reporting Council's Ethical Standards for Auditors 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. These policies include engagement lead and manager rotation, for which rotation is required after 5 years and 10 years respectively.

INDEPENDENCE - ENGAGEMENT TEAM ROTATION	
Senior team members	Number of years involved in current role
Janine Combrinck - Audit engagement lead	2
Lucy Trevett - Audit manager	1

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

APPENDIX V: FEES SCHEDULE

	2016/17 FINAL PROPOSED £	2016/17 PLANNED £	2015/16 FINAL £	EXPLANATION FOR VARIANCES
Code audit fee	67,781	67,781	67,781	As per PSAA scale fee
Housing benefits subsidy claim	8,297	8,297	8,297	As per PSAA scale fee
TOTAL AUDIT AND CERTIFICATION FEES	76,078	76,078	76,078	
Fees for audit related services:				
Pooling of Housing Capital Receipts return	1,500	1,500	1,500	N/A
Fees for other non-audit services	-	-	2,500	BDO tax subscription service (ended in 2015/16)
NON-AUDIT ASSURANCE SERVICES	1,500	1,500	4,000	
TOTAL ASSURANCE SERVICES	77,578	77,578	80,078	

APPENDIX VI: DRAFT REPRESENTATION LETTER

TO BE TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP
55 Baker Street
London
W1U 7EU

20 September 2017

Dear Sirs

Financial statements of Eastbourne Borough Council for the year ended 31 March 2017

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 2017 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 Deputy Chief Executive and 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 2017 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 those that have already been included. Should any material events of this type occur, we will advise you accordingly.

APPENDIX VI: DRAFT REPRESENTATION LETTER

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.

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): 2.4%
- Rate of increase in salaries: 2.8%
- Rate of increase in pensions: 2.4%
- Rate of discounting scheme liabilities: 2.5%
- 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.

APPENDIX VI: DRAFT REPRESENTATION LETTER

We confirm that the valuations applied 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 are not materially misstated at year end. In particular, we are satisfied that:

- Council dwellings revalued in the year are based on existing use prices discounted for social housing
- Specialised operational land and buildings revalued in the year where there is no market based evidence of current value are based on rebuild index prices
- Non-specialised operational land and buildings revalued in the year are based on existing use prices.

We are satisfied that investment properties have been appropriately valued at fair value, based on highest and best use.

We are also satisfied that properties not revalued in the year are not materially misstated at year end.

c) Allowance for non-collection of receivables

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

d) Non domestic rate appeals provision

We are satisfied that the provision recognised for non-domestic rates appeals is materially correct, and the calculation of historic 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 2017 are 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.

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 and member has taken all the steps that they ought to have taken as a director or member in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Alan Osborne, 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]

FOR MORE INFORMATION:

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

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