LEWES DISTRICT COUNCIL

AUDIT COMPLETION REPORT

Audit for the year ended 31 March 2018

12 September 2018

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CONTENTS

WELCOME

We have pleasure in presenting our Audit Completion Report to the Audit and Standards Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2018, specific audit findings and areas requiring further discussion and/or the attention of the Audit and Standards Committee. At the completion stage of the audit it is essential that we engage with the Audit and Standards Committee on the results of audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit and Standards Committee meeting on 24 September 2018, and to receiving your input.

In the meantime, if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

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

We would also like to take this opportunity to thank the management and staff of the Council for the co-operation and assistance provided during the audit.

OVERVIEW

This summary provides an overview of the audit matters that we believe are important to the Audit and Standards Committee in reviewing the results of the audit of the financial statements and use of resources of the Council for the year ended 31 March 2018.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

AUDIT SCOPE AND OBJECTIVES	
Audit status	We are in the process of completing our audit procedures in accordance with the planned scope. Our objectives have been achieved subject to resolution of matters set out in the outstanding matters section below. As reported by management to the Audit and Standards Committee in July 2018, the draft Statement of Accounts was not prepared in accordance with the new faster close statutory deadline of 31 May 2018. It was submitted for audit towards the end of June 2018 and we agreed with management that we would carry out our final audit visit in August and September 2018. Therefore, the new statutory deadline of 31 July 2018 for the final Statement of Accounts has also not been met. Management attributed the delay in preparation of the draft Statement of Accounts to late receipt of land and buildings valuation information from the external valuer and IT issues with the fixed asset register.
Audit risks update	No additional significant audit risks were identified during the course of our audit procedures subsequent to our Audit Plan to you dated 26 February 2018.
Materiality	Our final materiality is £1.8 million. We have increased our materiality level by £100,000, compared to the materiality level reported in our Audit Plan, as a result of an increase in gross expenditure in the 2017/18 financial statements.
Changes to audit approach	There were no significant changes to our planned audit approach nor were any restrictions placed on our audit.

OVERVIEW

KEY AUDIT AND ACCOUNTING MATTERS	
Material misstatements	Our audit work completed to date has not identified any material misstatements, although our audit procedures on non-current assets are still in progress and could result in audit differences.
Unadjusted audit differences	Our audit sample testing identified a capital item for £14,000 incorrectly charged to revenue expenditure. Whilst this is below our trivial level for reporting, we are required to consider the potential for misstatements in the untested population and therefore we extrapolated the error and estimated an overall potential misstatement of £88,000 (after extending the sample tested). We have also rolled forward audit differences in the prior year that continue to impact on current year balances. These are set out in Appendix I. You consider these identified misstatements to be immaterial in the context of the financial statements taken as a whole. We concur with this judgement, although we also request that you correct the current year audit difference even though not material.
Control environment	Whilst the Council has attributed the delay in preparation of the draft Statement of Accounts to factors beyond its control, we have raised a significant control deficiency recommendation in Appendix II, as management will need to ensure that there are appropriate contingency arrangements in place in the event of unforeseen circumstances in the accounts closedown process going forward.
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 2018/19 have been identified.

OVERVIEW

AUDIT OPINION	
Financial statements	Subject to the successful resolution of outstanding matters set out on page 6, we anticipate issuing an unmodified opinion on the Council financial statements for the year ended 31 March 2018.
Other information	We propose issuing an unmodified opinion on the consistency of the other information in the Statement of Accounts with the financial statements and our knowledge.
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, although we have requested that additional information is added to the Governance Statement to explain the delay in preparation of the draft financial statements.
Use of resources	We anticipate issuing an unmodified opinion on the arrangements in place to secure economy, efficiency and effectiveness in the use of resources for the year ended 31 March 2018.
OTHER MATTERS FOR THE ATTENTION OF THE AUDIT AND STANDARDS COMMITTEE	
Whole of Government Accounts (WGA)	The Council is below the audit threshold of £500 million for a full assurance review of the WGA Data Collection Tool.
Audit independence	Our observations on our audit independence and objectivity and related matters are set out in Appendix IV.
Management letter of representation	The draft management letter of representation, to be approved and signed, is set out in Appendix VI.

OUTSTANDING MATTERS

At the time of drafting this report, we are in the process of completing our audit work for the year ended 31 March 2018, and anticipate issuing an unmodified opinion on the Council 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 Standards Committee meeting at which this report is considered:

1	Clearance of six outstanding issues on the audit queries tracker currently with management
2	Audit of the valuation of Non-Current Assets: Property, plant and equipment; Investment Properties and Heritage Assets
3	Documentation to support some journals in the final quarter of the year
4	Audit of financial instruments
5	Completion of our sample testing of receipts and expenditure either side of the year end
6	Completion of our audit of the Collection Fund
7	Reperformance of a sample of benefits testing completed by internal audit
8	Final review and approval by you of the Statement of Accounts
9	Engagement lead and independent quality control reviews
10	Subsequent events review
11	Management letter of representation, as attached in Appendix VI to be approved and signed

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT RISKS

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	Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual. By its nature, there are no controls in place to mitigate the risk of management override.	We: • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements for the first nine months; we need to compete this testing for the last quarter of the year	No issues were identified from our review of the appropriateness of journal entries in the first nine months of the year. We will update the Audit and Standards Committee on the findings of our review of journals in the final quarter and other adjustments to the financial statements made after 31 March 2018.
			• Reviewed accounting estimates for biases associated with pensions, bad debts and accruals and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud	Our work on accounting estimates to date has not identified any evidence of bias. We will update the Audit and Standards Committee on the findings from our review of Non-Current Asset estimates, when we have completed our work in this area.
			• 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.	We have not identified any unusual transactions in journals reviewed to date.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
2	Revenue and expenditure recognition	Under auditing standards there is a presumption that income recognition presents a fraud risk. Our Audit Plan identified a risk in relation to the existence and accuracy of fees and charges credited to net cost of services recorded in the Comprehensive Income and Expenditure Statement (CIES) throughout the year and the cut-off of this income at year end. In the public sector the risk of fraud in revenue recognition is modified by Practice Note 10 (PN10), issued by the Financial Reporting Council. PN10 states that auditors should also consider the risk that material misstatements may occur through the manipulation of expenditure recognition. This risk is identified as being relevant to cut-off of expenditure.	We: • Tested an increased sample of fees and charges income credited to the net cost of services to underlying documentation and confirmed the existence and accuracy of transactions throughout the year • Tested a 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 • Tested a sample of expenditure either side of year end, to confirm that expenditure has been recorded in the correct period.	We did not identify any issues in our testing of revenue from fees and charges credited to the net cost of services. Our testing of receipts either side of the year end is in progress. Our testing of expenditure either side of the year end is in progress. We will update the Audit and Standards Committee on the findings from this testing, when it is complete.

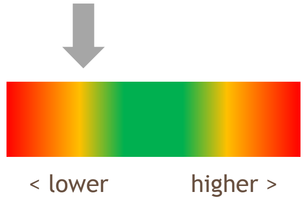
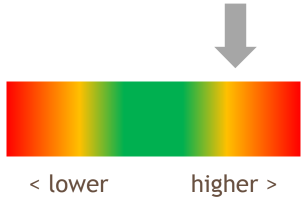
KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
3	Valuation of non-current assets	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. The Council appointed an external valuer to carry out a year end desktop review on all property categories. Due to the significant value of the Council's non-current assets, and the high degree of estimation uncertainty, our Audit Plan identified a risk over the valuation of non-current assets where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year end.	We: • Reviewed the instructions provided to the valuer, and the valuer's skills and expertise, in order to determine if we can rely on the management expert • Confirmed that the basis of valuation for assets valued in year is appropriate, including checking that investment properties and surplus assets have been valued at 'highest and best use' • Reviewed the reasonableness of assumptions used in the valuations against indices and price movements for classes of assets, and the Council's critical assessment of the external valuer's conclusions.	From our review of the instructions provided to the valuer, DVS, we noted some instances where out of date information had been provided by the Council. We have included a recommendation about this in Appendix II. However, we are satisfied that we can rely on the management expert. We have not yet received the final updated valuation report from the valuer to confirm the figures in the draft accounts and the basis of the valuations. We have made various attempts to contact the valuer during the execution of the audit but we have not yet received responses to our queries. We are continuing to follow up on these queries via both email and telephone calls. We will update the Audit and Standards Committee on the findings of our audit work in this area, when it is complete.

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES

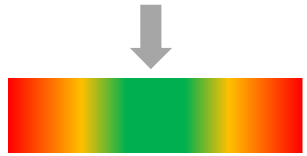
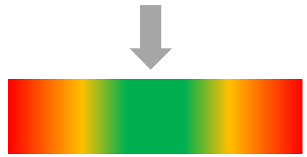
Land, buildings, dwellings and investment property valuations

ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT	IMPACT
Land and buildings are valued by reference to existing use market values Dwellings are valued by reference to open market value less a social housing discount Investment properties are valued by reference to highest and best use market value Some specialist buildings are valued at depreciated replacement cost (DRC) by reference to building indices	The Council appointed an external valuer to carry out a year end desktop review on council dwellings, investment properties, surplus assets, and assets valued on a depreciated replacement cost basis. This resulted in a net upwards revaluation movement of £10.109 million in the year for property, plant and equipment (£3.529 million as impairments recognised in the deficit on provision of services and £13.638 million to the revaluation reserve) and a loss of £249,000 for investment properties in the draft financial statements submitted for audit. **Council dwellings** The valuer provided the Council with a valuation as at 31 March 2018 (valuation dated 1 January 2018 and topped up with a price movements review to 31 March 2018), on a beacon basis, resulting in an increase of 2.46% on the vacant possession value and net revaluation gains of £1.199 million. This increase is lower than regional trends in property prices in Lewes and the South East, which indicate an increase of 5.7% and 4.3% respectively for the year ended 31 March 2018. We are currently liaising with the valuer to determine the appropriateness of the valuation increase applied and to gain an understanding of the factors which may have contributed to the lower percentage increase. **Other land and buildings valued on depreciated replaced cost basis** All assets valued on a depreciated replacement cost (DRC) basis have been revalued as at 31 March 2018 (valuation dated 1 January 2018 and topped up with a price movements review to 31 March 2018). This resulted in an overall increase of 16.2% in the value of these assets and an upward revaluation gain of £2.910 million. For all assets we have determined a suitable index to benchmark the asset's value against, based on advice from Gerald Eve LLP, a firm of property consultants and chartered surveyors commissioned by the National Audit Office to assist auditors' consideration of movements in the valuation of non-current assets. Based on this advice, we have referred to the BCIS tender price index for assets valued under depreciated replacement cost. In 2017/18, there were significant fluctuations in the BCIS tender price index, an annual increase of 6.7% is reflected in the market report; local data adjusted for location factors provided by the Council's valuer shows an increase of 4.8% in the tender price index, which we have used in our assessment.	 

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES		
Land, buildings, dwellings and investment property valuations (continued)		
ESTIMATE	**HOW RISK WAS ADDRESSED BY OUR AUDIT**	**IMPACT**
As above	Our audit approach has considered all of these factors, and determined an expected valuation for each asset. A reasonable range was then set based on our professional judgement and taking into account the reliability and quality of the market information available. We are currently liaising with the valuer in respect of the assets outside of this reasonable range to determine whether there are specific factors relating to them which have affected their valuation. **Other land and buildings valued on an existing use basis** The valuer provided the Council with a valuation as at 31 March 2018, on an existing use basis for HRA garages, resulting in an increase of 15.4% of the existing use value and net revaluation gains of £1.388 million. We are currently liaising with the valuer to determine the appropriateness of the valuation increase applied for the garages and to gain an understanding of the factors which may have contributed to the percentage increase applied. **Other land and buildings not revalued in the year** Other land and buildings not revalued in the year have a gross book valuation of £24.587 million as at 31 March 2018. The Council’s valuer has confirmed that there was no material movement at year-end for assets not revalued in the year, based on a threshold of £100,000. We have reviewed available market data and indices for the periods between valuations and assessed the reasonableness of the valuations in light of this information. For all assets we have determined a suitable index to benchmark the asset’s value against, based on advice from Gerald Eve LLP, a firm of property consultants and chartered surveyors commissioned by the National Audit Office to assist auditors’ consideration of movements in the valuation of non-current assets. Based on this advice, we have referred to the MSCI capital index.	 < lower higher >

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES		
Land, buildings, dwellings and investment property valuations (continued)		
ESTIMATE	**HOW RISK WAS ADDRESSED BY OUR AUDIT**	**IMPACT**
As above	Our audit approach has considered all of these factors, and determined an expected valuation for each asset. A reasonable range was then set based on our professional judgement and taking into account the reliability and quality of the market information available. Applying the relevant indices to the assets, where this resulted in a potential valuation movement outside of a reasonable range. We are currently in the process of quantifying and totalling these differences. **Investment properties** All investment properties were revalued as at 31 March 2018 and a fair value loss of £249,000 is recognised in the statement of accounts, a decrease of 2.6%. Larger gains and losses have been recognised on some investment properties in the year, with movements ranging from -38% to 300%. For each investment property, we have determined a suitable index to benchmark the asset's value against, based on advice from Gerald Eve LLP, a firm of property consultants and chartered surveyors commissioned by the National Audit Office to assist auditors' consideration of movements in the valuation of non-current assets. Based on this advice, we have referred to the MSCI regional rental growth for our assessment of investment property valuations. Our audit approach has considered these factors and determined an expected valuation for each asset. A reasonable range was set based on our professional judgement and taking into account the reliability and quality of the market information available. We are currently liaising with the valuer in respect of the assets outside of this reasonable range to determine whether there are specific factors relating to them which have affected their valuation. **Surplus assets** All surplus assets were assets were revalued as at 31 March 2018 and a net revaluation loss of £811,000 has been recognised in the statement of accounts (£1.200 million recognised as a loss in the surplus on the provision of services). The impairment recognised primarily relates to one asset which is scheduled for demolition as part of a wider regeneration project. Our audit approach determined an expected valuation for each surplus asset based on relevant market information available and reviewed the valuation given against this data. We consider that the valuation of surplus assets is within a reasonable range based on the information available.	 < lower higher >  < lower higher >

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
4	Pension liability assumptions	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. 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. Our Audit Plan identified a risk that the membership data and cash flows provided to the actuary at 31 March may not be correct, or the valuation uses inappropriate assumptions to value the liability.	We: • Agreed the disclosures to the information provided by the pension fund actuary	No issues were identified in the financial statements disclosures when compared to the actuary's report.
			• Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data	Our review of assumptions used to estimate the value of the pension liability concluded they are not unreasonable (see next page). We used the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions.
			• Sought assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary (this is not yet available at the time of drafting our report)	We have received an assurance report from the pension fund auditor – no significant issues were reported.
			• Checked whether any significant changes in membership data have been communicated to the actuary	There were no significant changes to staff numbers that would require additional communication with the actuary this year.

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES

Pension liability assumptions

ESTIMATE

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

HOW RISK WAS ADDRESSED BY OUR AUDIT

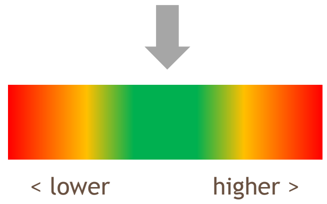
As at 31 March 2018 net pension liabilities disclosed in the Balance Sheet decreased by £1.19 million compared to the balance at 31 March 2017. The movements mainly comprised a decrease from current service costs exceeding contributions paid by the Council and a decrease from interest costs. In addition, in the prior year there was the impact on the transfer of staff to Eastbourne Borough Council. The majority of other assumptions remained consistent between the years other than an increase in the discount rate (this reduced the liability).

The actuary has used the following assumptions to value the future pension liability:

	Actual used	Actuary range	PwC assessment of actuary range to market expectations
CPI increase	2.4%	2.4%	Reasonable
Salary increase	2.8%	--	Scheme and employer specific – appears reasonable in context of CPI/RPI
Pension increase	2.4%	2.4%	Reasonable
Discount rate	2.6%	2.6-2.7%	Reasonable
Mortality - LGPS:			
- Male current	22.1 years	21.5-22.8	Reasonable
- Female current	24.4 years	24.1-25.1	Reasonable
- Male retired	23.8 years	23.7 – 24.4	Reasonable
- Female retired	26.3 years	26.2 – 26.9	Reasonable

The assumptions used all fall within the acceptable range for the actuary.

IMPACT



KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
5	Recharges between the Council and Eastbourne Borough Council	The Council is undergoing a major Joint Transformation Programme (JTP) with Eastbourne Borough Council to merge frontline services and back office functions. In February 2017, the vast majority of the Council's employees were transferred onto Eastbourne Borough Council's payroll. There are recharging arrangements in place for each of the four key service areas (Corporate Management Team, Information Technology, Human Resources and Asset Management) and for employees outside of these services. On a monthly basis Eastbourne Borough Council calculates, based on these arrangements, the amount to be recharged via invoice back to the Council. Legal Services are held within Lewes District Council and the Council recharges Eastbourne Borough Council for these services. We understand that the recharge percentages may change when budgets are realigned in 2017/18. Given that this is the first full year of these recharge arrangements, there remains a risk over the accuracy of expenditure in the Comprehensive Income and Expenditure Statement. There is also a risk that redundancies from the JTP may not be appropriately accounted and disclosed for in line with the CIPFA's Code of Practice on Local Authority Accounting 2017/18.	We: • Reviewed the reasonableness and accuracy of the recharge arrangements in place between the councils and check that the Council's share of the costs is in line with approved recharge arrangements	We obtained the recharge tracker as part of our audit of Eastbourne Borough Council and confirmed that there are arrangements in place to maintain the spreadsheet on a monthly basis and recharge the council via invoices. For the service lines that were set up as shared service arrangements in phase one of the JTP, there are set percentages in place for the amounts recharged, which are between 40% and 50% per service. As further shared services and greater integration between the councils' staff has developed during the year, Eastbourne Borough Council moved away from recharging the Council 100% of the hosted payroll cost and is allocating payroll and some non-payroll costs between the councils on a shared service basis. Our testing has confirmed that costs are split between 40% and 50% dependent on the service line. In our prior year audit, we confirmed from review of Cabinet minutes and discussions with management of both councils that delegated authority was given to the Deputy Chief Executive to determine the appropriate split of JTP costs and benefits. Internal Audit concluded in their main accounting system review that Shared Service Agreements are not filed with the recharges working papers as supporting documentation for costs split between the councils. Whilst we have found no evidence of unreasonable recharges between the councils, we have repeated Internal Audit's recommendation in Appendix I as there is scope to strengthen the governance arrangements in this area.
			• Reviewed the completeness and accuracy of redundancy accruals and provisions and exit package disclosures.	No issues noted from our testing of exit packages.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
6	Group Accounts	The Council has a new wholly owned subsidiary, Lewes Housing Investment Company Limited. At the time of our planning it was not known whether transactions in this entity would be material in 2017/18 and therefore whether Group Accounts would be required. In addition, the Council has an interest in a new joint housing investment partnership with Eastbourne Borough Council, Aspiration Homes Limited. The Council's share of the joint arrangement depends on the value and timing of transactions in the new company. If material, an assessment will need to be made as to whether the joint arrangement comprises a joint venture or a joint operation under International Financial Reporting Standard 10 Consolidated Financial Statements and Group Accounts will need to be prepared. There is a risk that the Council may need to prepare Group Accounts for the first time.	We have reviewed the financial results of Lewes Housing Investment Company Limited and Aspiration Homes Limited at the year end.	Review of the accounts of Lewes Housing Investment Company Limited and Aspiration Homes Limited confirmed that there were no material transactions in the year and therefore Group Accounts were not required.

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	HRA Expenditure	Our audit sample testing identified an invoice for £14,000 within HRA repairs and maintenance expenditure which was capital in nature and therefore incorrectly treated as revenue expenditure. Additional testing has been performed and the sample has been extended to 36 invoices. No further errors were identified. Whilst the identified error is below our trivial level for reporting, we are required to consider the potential for misstatements in the untested population and therefore we extrapolated the error and estimated an overall potential misstatement of £88,000 (after extending the sample tested). This is included within the schedule of unadjusted audit differences in Appendix I, which sets out the factual error and the estimated overall potential error.
2	Accounts adjustments	The following presentational and disclosure amendments have been made to the financial statements as a result of the audit: • Reclassification of an amount of £2.758 million from other service expenses to depreciation, amortisation, impairment/(reversals) in the note on Expenditure and income analysed by nature (note 9) • Reclassification of an amount of £130,000 from capital grants and contributions to other minor grants credited to cost of services within the grant note (note 31) • Various minor presentational amendments.

KEY AUDIT AND ACCOUNTING MATTERS

MATTERS REQUIRING ADDITIONAL CONSIDERATION

We comment below on other matters requiring additional consideration:

	AUDIT AREA	AUDIT FINDINGS
1	Fraud	Whilst the directors have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from those charged with governance on whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Plan on 19 March 2018.
2	Internal audit	We reviewed the audit work of the Council's internal audit function to assist our risk scoping at the planning stage and to support our review of the Annual Governance Statement and our use of resources work.
3	Related parties	We are required to consider whether the disclosures in the financial statements concerning related party transactions are complete, accurate and in line with the requirements of the accounting standards. We have agreed the related party note to supporting working papers and declaration forms, reviewed the ledger to ensure accuracy of the stated figures and completed companies house searches to confirm completeness of the disclosures. Our audit did not identify any omissions or inaccuracies in the related parties note in the financial statements.

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	We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	We are satisfied that the other information in the Statement of Accounts is consistent with the financial statements and our knowledge.
2	We are required to report by exception if the Annual Governance Statement does not meet the disclosure requirements set out in the guidance 'Delivering Good Governance in Local Government Framework' (2016 Edition) published by CIPFA/SOLACE or is misleading or inconsistent with other information that is forthcoming from the audit.	We have no matters to report in relation to the Annual Governance Statement's compliance with relevant guidance, although we have requested that additional information is added to the Governance Statement to explain the delay in preparation of the draft financial statements.

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 the Audit and Standards Committee.

As the purpose of the audit is for us to express an opinion on the Council's 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.

We note that the Council's internal audit function has issued a number of observations and recommendations on the Council's control environment during 2017/18. 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.

There was a significant control deficiency in 2017/18 as the Council failed to prepare its draft Statement of Accounts by the statutory deadline of 31 May 2018, thereby impacting our ability to complete the audit by the statutory deadline of 31 July 2018. Whilst management has attributed the delay in preparation of the draft Statement of Accounts to factors beyond its control, namely late receipt of land and buildings valuation information from the external valuer and IT issues with the fixed asset register, the Council should ensure that there are appropriate contingency arrangements in place in the event of unforeseen circumstances in the accounts closedown process.

We have identified two other deficiencies in controls that 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 £500 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 14 June 2018. The Council submitted its DCT on 31 July, following delays in the preparation of the financial statements. We will submit the relevant section of the assurance statement to the National Audit Office (NAO) when we have completed the audit of the financial statements.

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) and report to you on an 'except for' basis. 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 2017/18 Audit Plan issued in February 2018. 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	The update to the Medium Term Financial Strategy (MTFS) to 2020/21 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 were identified in respect of 2017/18 (£641,000), 2018/19 (£913,000), 2019/20 (£605,000) and 2020/21 (£38,000), resulting in an average level of required savings of £549,000 per annum over the four-year period. The Council currently has a number of major development / transformation programmes in place to help facilitate these savings or create additional revenue streams in the medium term, to close the budget gaps. There is 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. As a starting point for assessing the effectiveness of the Council's arrangements for ensuring sustainable finances, we reviewed current year outturn and the Council's reserves position.	**General Fund** The Council budgeted to spend £11.148 million on General Fund services in 2017/18 (incorporating a savings target of £641,000) and to make a net transfer to earmarked reserves of £704,000. The actual cost of services (before technical accounting adjustments) in 2017/18 was £11.969 million, an overspend of £821,000. This was largely due to additional one-off costs associated with the Joint Transformation Programme including temporary staff pending transition. The actual net transfer to reserves was £103,000 less than budgeted. Overall, the general fund balance increased by £31,000, to £2.093 million. The closing General Fund balance remains above the minimum level of £1 million recommended by the Section 151 Officer. The total Earmarked General Fund reserves balance fell by £1.359 million, to £8.737, million at 31 March 2018. The decrease in earmarked reserves largely related to £2.257 million use of strategic reserves set aside to support the Council's Joint Transformation Programme of Integration. **Housing Revenue Account** Net costs of £933,000 were incurred on the HRA in 2017/18, compared to a budgeted break even position. This was largely due to additional one-off costs associated with the Joint Transformation Programme. Total HRA reserves (HRA balance and major repairs reserve) totalled £7.971 million at 31 March 2018, an increase of £166,000 from the prior year. The total contribution made to the major repairs reserve is higher than the original budget to reflect the current known cost of replacing components. **Collection Fund** The council tax balance in the Collection Fund remained in surplus by £781,000 at 31 March 2018. The Council's share of the closing surplus is approximately £122,000. The non domestic rates balance in the Collection Fund is a deficit of £1.949 million at 31 March 2018. This is largely due to charges for appeals against valuations. As a result, the overall Collection Fund is in deficit by £1.168 million at 31 March 2018, which is a deterioration on the prior year deficit balance of £1.362 million. However, we are satisfied that the Collection Fund is being adequately monitored and managed.

USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
Sustainable finances (continued)	We reviewed the assumptions used in the MTFS for investment costs and savings associated with major development/ transformation programmes. We also reviewed the Council's arrangements for monitoring the progress of these programmes against the budgeted savings targets.	**Medium term financial strategy** The Council achieved £341,000 of its £641,000 savings target for the year. This related mainly to savings from the Joint Transformation Programme, a reduction in Wave Leisure service fees and income generation in waste and recycling. The Joint Transformation Programme did not achieve its budgeted savings for the year but the shortfall is being recouped in 2018/19 and the difference was managed by vacancies during 2017/18. An updated MTFS from 2018 – 2021 was approved by Cabinet in July 2018 as part of the 2018/19 general fund revenue budget. Revised budget gaps have been identified in 2018/19 (£1.034 million), 2019/20 (£585,000), 2020/21 (£126,000) and 2021/22 (£19,000), resulting in an average level of required savings of £441,000 per annum over the four year period. This is a reduction on the average savings compared to the previous MTFS update. The savings for 2018/19 have been identified and relate largely to planned new income streams and the JTP shared transformation programme. **Joint transformation programme with Eastbourne Borough Council to provide joint services** As reported above, the Council is currently in the process of undergoing a major Transformation Programme with Eastbourne Borough Council, both in the provision of frontline services and the organisation of back office functions. This is being delivered over three phases. Following the implementation of phase one in 2016/17, which covered management and corporate activity, phase two was implemented in 2017/18, covering frontline services and delivery of further savings. Phase three is planned for 2018/19, with an ongoing review of support services and planned savings of £800,000. Although the exact savings figure for phase two will not be established until the final vacant roles are recruited, we do not have any significant concerns regarding achievement of the savings targets. Good progress has been made on key technology projects to align the two councils. During the year the Customer First; Homes First and Neighbourhood First brands were launched. A new joint website and intranet were also delivered. Delivery of the transformation is being managed within the £6.8m budget and overall the £2.8m of savings for JTP Phases 1 and 2 are on track to be achieved. Challenges within the programme are known and being managed to ensure successful delivery of the overall programme goals. The Programme has a clear governance structure led by a Programme Board and regular meetings held to monitor progress. 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.

USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
Sustainable finances (continued)	As above.	**North Street Quarter Development** Management expects this major capital project to bring 416 new homes to the town, 40% of which will be affordable, as well as providing a new health centre, new commercial space flood defences and relocation of the fire station. This is a long term project currently underway with completion estimated by 2021. The Council was able to secure a government award for £55,000 for the new health hub in the period. In July 2018 Cabinet agreed to the purchase the health hub and car park from the North Street Quarter scheme (subject to a satisfactory business case) with a joint independent landowner and an allocation of £700,000 for the development of the temporary car park within the 2018/19 capital programme. **Newhaven Enterprise Zone** Newhaven Enterprise Zone is a collaboration between Coast to Capital and the Council. It is made up of eight sites across the town covering approximately 79 hectares, and is supported by key partners, including East Sussex County Council, Newhaven Town Council and South East LEP. The project aims to facilitate the economic regeneration of Newhaven and shift the town to a higher value economy over the next 25 years. Key developments in the period included refurbishing 5,000m^2 of existing floor space, attracting over £8 million of new private sector investment and opening over 2,000m^2 of new commercial floor space, with a further 5,000m^2 under construction.

USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
Sustainable finances (continued)	As above.	**Joint housing investment partnership with Eastbourne Borough Council** Aspiration Homes was incorporated in June 2017 as a Limited Liability Partnership with Eastbourne Borough Council, with the primary purpose of delivering new affordable housing. The new housing will also assist the Council in meeting its wider economic and regeneration aims and addressing housing need. The Council has a housing strategy feasibility budget of £200,000 for site assessments related to housing development in respect of Aspiration Homes Limited and the Council's other housing subsidiaries. **Joint venture for energy and sustainability** The Council has set up a procurement and delivery framework, called Clear Futures. It was developed jointly with Eastbourne Borough Council in a contractual joint arrangement with two preferred bidders appointed during the procurement process in 2017/18. The aim is to deliver a range of innovative developments to meet environmental ambitions whilst also ensuring resilience against future energy and sustainability. Management expects the joint venture to offer significant advantages in accelerating the delivery of projects, as a low risk option for the Council. In July 2017, Cabinet also approved the setting up of a new Joint Board for Energy & Sustainability in collaboration with Eastbourne Borough Council, which will be overseen through a "Strategic Partnering Agreement". The development of future new homes by Aspiration Homes Limited will primarily be through the Clear Futures joint venture. A pipeline of other projects for the Clear Futures joint venture is being developed. **Conclusion** We are satisfied that the MTFS adequately takes accounts of the investment costs and known savings associated with the Council's major transformational projects.

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 Standards 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 work completed to date has not identified any material misstatements, although our audit procedures on non-current assets are still in progress and could result in audit differences. We will update the Audit and Standards Committee on the findings of our testing, when complete, and issue an updated Audit Completion Report.

A number of presentational amendments have been made in the revised financial statements as a result of the audit.

UNADJUSTED AUDIT DIFFERENCES

Our audit identified one estimated unadjusted audit difference this year, which would decrease the deficit on provision of services by £88,000, if corrected. We have also rolled forward audit differences in the prior year that continue to impact on current year balances. You consider these identified misstatements to be immaterial in the context of the financial statements taken as a whole. We concur with this judgement, although we also request that you correct the current year audit difference even though not material.

APPENDIX I: AUDIT DIFFERENCES

		INCOME AND EXPENDITURE		STATEMEMENT OF FINANCIAL POSITION	
		DR	CR	DR	CR
	£'000	£'000	£'000	£'000	£'000
Deficit on provision of services before adjustments	3,275				
DR Non-Current Assets				88	
CR Expenditure – Local authority housing	(88)		(88)		
(1) Extrapolated error in respect of HRA expenditure not correctly capitalised (factual error £14,000 and estimated error of £74,000)					
TOTAL CURRENT YEAR UNADJUSTED AUDIT DIFFERENCES	(88)	-	(88)	88	-
Impact on current year of prior year audit differences brought forward (see following page)		-		1,542	(1,542)
TOTAL UNADJUSTED AUDIT DIFFERENCES	(88)	-	(88)	1,630	(1,542)
Deficit on provision of services, if adjusted	3,187				

APPENDIX I: AUDIT DIFFERENCES

IMPACT ON CURRENT YEAR OF PRIOR YEAR AUDIT DIFFERENCES BROUGHT FORWARD (These items cannot be adjusted for in the current year as they are not material)		INCOME AND EXPENDITURE		STATEMENT OF FINANCIAL POSITION	
		DR	CR	DR	CR
	£'000	£'000	£'000	£'000	£'000
DR Other land and buildings net book value				1,246	
CR Revaluation reserve					(1,219)
CR Capital adjustment account					(27)
(2) Impact of not applying indexation to DRC assets since last formal revaluation					
DR Heritage assets net book value	-			166	
CR Revaluation reserve					(166)
(3) Impact of not applying indexation to Newhaven Fort since last formal revaluation					
DR Opening revaluation reserve	-			130	
CR Opening capital adjustment account					(130)
(4) Incorrect posting of revaluation reserve movements in 2015/16					
TOTAL PRIOR YEAR UNADJUSTED AUDIT DIFFERENCES IMPACTACTING ON THE CURRENT YEAR		-		1,542	(1,542)

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

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

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
FINANCIAL STATEMENTS					
Financial statements preparation	The Council failed to prepare its draft Statement of Accounts by the statutory deadline of 31 May 2018, which were only submitted for audit towards the end of June 2018. Management has attributed the delay to factors beyond its control, namely late receipt of land and buildings valuation information from the external valuer and IT issues with the fixed asset register. However, in the absence of appropriate controls and contingency arrangements to ensure that the financial statements are prepared in time, there is a risk that the Council may miss this statutory deadline again going forward.	Review the circumstances resulting in the delay to the preparation of the draft financial statements and ensure that appropriate action is taken and / or contingency arrangements put in place to prevent these issues going forward.	The events that gave rise to the late completion of the financial statement have been reviewed. Alternative valuation suppliers are currently being considered and the procurement will start in October. Alternatives to use of the asset management software system are being assessed and changes will be made prior to the closure of accounts process for 2018/19 to streamline this work and achieve efficiencies. Joint working with Eastbourne will ensure that sufficient resources are available to meet the 31st May deadline.	Head of Finance	September 2018

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
Service level agreements	Internal Audit raised a recommendation that service level agreements should be created to verify the split of salaries between the Council and Eastbourne Borough Council. Income and expenditure may be misstated if there is not sufficient clarity around agreed recharges.	Implement Internal Audit's recommendation that service level agreements should be created to verify the split of salaries between the Council and Eastbourne Borough Council.	Delegated authority has been given to the Deputy Chief Executive (DCE) to allocate cost as deemed appropriate. As the process of transition for JTP2 is still underway, it is not possible to determine the final allocation of costs between the authorities. The interim costs have been shared on a 50/50 basis in most cases ensuring that neither authority is in a worse financial position than before shared services was implemented. The budget realignment process is virtually completed and once the final costs are known a document will be drawn up for each service identifying how costs are to be shared and submitted to the DCE for formal approval.	Head of Finance	September 2018

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
Accuracy of information provided to valuer	Our audit found that the valuer's interim report included valuations for assets that the Council had sold months before the valuation date. This occurred because the Council had not removed these assets from the list of assets to be valued provided to the valuer. The Council may incur unnecessary costs if the list provided to the valuer includes properties that do not need to be revalued.	Undertake a detailed review of the information provided to the valuer to ensure it is accurate and complete.	As part of the final accounts close down process, all Heads of Service will be contacted and asked to provide details of all assets sold during the year.	Head of Finance	March 2019

APPENDIX III: MATERIALITY

MATERIALITY - COUNCIL		
	FINAL	PLANNING
Materiality	£1,800,000	£1,700,000
Clearly trivial threshold	£36,000	£34,000

Planning materiality of £1.7 million was based on 2% of gross expenditure, using prior year gross expenditure.
We have increased our final materiality level by £100,000, as a result of an increase in gross expenditure in the year per the 2017/18 draft financial statements.

APPENDIX IV: INDEPENDENCE

Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement leads are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2018.

Details of services, other than audit, provided by us to the Council during the period and up to the date of this report were provided in our Audit Plan. We understand that the provision of these services was approved by the Audit and Standards Committee in advance in accordance with the Council's policy on this matter.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Plan.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council.

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

APPENDIX V: FEES SCHEDULE

	2017/18 FINAL PROPOSED £	2017/18 PLANNED £	2016//17 FINAL £	COMMENTS
Code audit fee	46,418	46,418	46,418	
Fee for reporting on the housing benefits subsidy claim	15,598	15,598	25,598	We have incurred additional cost in our work on the 2016/17 housing benefits subsidy claim due to a significant level of misstatements identified in the claim, and we have therefore agreed an additional fee of £10,000 with management. This is subject to approval by Public Sector Audit Appointments Limited.
TOTAL AUDIT AND CERTIFICATION FEES	**62,016**	**62,016**	**72,016**	
Fees for reporting on other government grants: Pooling of housing capital receipts return	1,500	1,500	1,500	
Fees for other non-audit services	-	-	-	
NON-AUDIT ASSURANCE SERVICES	**1,500**	**1,500**	**1,500**	
TOTAL ASSURANCE SERVICES	**63,516**	**63,516**	**73,516**	

APPENDIX VI: DRAFT LETTER OF REPRESENTATION

TO BE TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP
55 Baker Street
London
WIU 7EU

[Date]

Dear Sirs

Financial statements of Lewes District Council for the year ended 31 March 2018

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 2018 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 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 2018 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, other than those which have already been disclosed in the 'Events after the reporting period' note to the financial statements, which either require changes to be made to the figures included in the financial statements or to be disclosed in the note. Should any material events of this type occur, we will advise you accordingly.

APPENDIX V: DRAFT LETTER OF REPRESENTATION

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 made the results available to you.

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 note the unadjusted items you identified. We consider the potential and actual differences to be immaterial in the context of the financial statements taken as a whole.

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.

We confirm that the significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable:

(a) Pension fund

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 (RPI): 2.4%
- Rate of increase in salaries: 2.8%
- Rate of increase in pensions: 2.4%
- Rate for discounting scheme liabilities: 2.6%
- 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, surplus assets, investment properties and heritage assets land and buildings

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 LETTER OF REPRESENTATION

We confirm that the valuations, including desktop 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 are based on existing use prices discounted for social housing
- Specialised operational land and buildings (including heritage assets) where there is no market based evidence of current value are based on rebuild index prices
- Non-specialised operational land and buildings are based on existing use prices
- Surplus assets are valued at fair value, based on highest and best use
- Investment properties are 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 receivables, business 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 for non domestic rates appeals is reasonable as it is based on historic success rates.

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.

APPENDIX VI: DRAFT LETTER OF REPRESENTATION

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 councillor has taken all the steps that they ought to have taken 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 Mike Chartier

Chair of the Audit and Standards Committee

Signed on behalf of the Audit and Standards Committee

[Date]

APPENDIX VII: 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 all 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 companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as a 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 Transparency Report at www.bdo.co.uk

FOR MORE INFORMATION:

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