



# EASTBOURNE BOROUGH COUNCIL

DRAFT REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE

Audit for the year ended 31 March 2013

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# OVERVIEW

## Key audit findings

The purpose of this report is to communicate to you the significant findings from our audit of the financial statements of Eastbourne Borough Council for the year ended 31 March 2013. This overview covers those matters we believe to be significant in the context of our work. However, you should read the entirety of this report, as there may be other matters raised that you consider important.

We have largely completed our audit work and anticipate issuing an unqualified opinion subject to the outstanding matters listed on page 2

AREA OF AUDIT	SUMMARY
Financial statements	<p>No material misstatements were identified as a result of our audit work.</p> <p>Some areas of work are still outstanding at the time of drafting this report (see page 2). Should these result in any significant issues, we will provide an update to the Audit and Governance Committee.</p> <p>Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified true and fair opinion on the financial statements for the Council and the Group for year ended 31 March 2013.</p>
Unadjusted audit differences	<p>There are three unadjusted audit differences:</p> <p>The accumulated absences earned but not yet taken have been reported as a provision, instead of a creditor in the financial statements. As a result short term provisions are overstated by £115,000 and short term creditors are understated by £115,000 in the balance sheet.</p> <p>For heritage assets, the valuation adjustments have been included in the financial statements based on the initial valuation reports. A final, amended, valuation report was received from Sotherby's which increased the values by a further £35,000. This later valuation was not utilised in the preparation of the financial statements.</p> <p>The Goffs has been transferred to an asset held for sale. The valuation used was on the basis of the highest sealed bid at £606,000. However, the sale has not proceeded and the Goffs has since been valued for sale at £500,000. This later valuation was not utilised in the preparation of the financial statements.</p>
Internal controls	<p>We believe that there is a significant deficiency in internal controls in respect of Theatre cash and bank reconciliations ('databox reconciliations') as the reconciliations are not completed on a monthly basis and variances are not being investigated. We have raised the same issue in previous years and the Council has reflected this issue in the Annual Governance Statement. We are aware that the reconciliations have been completed retrospectively however good practice would be to ensure that reconciliations are completed on a monthly basis and that any variances are investigated in a timely manner.</p> <p>A number of other areas for improvement were identified which we have discussed with management.</p>
Annual Governance Statement	<p>We have not yet reviewed the Council's Annual Governance Statement. The findings from our review of the consistency of this statement with the governance arrangements at the Council will be included in the final version of this report to members of the Audit and Governance Committee.</p>
Whole of Government Accounts (WGA)	<p>We have not yet reviewed the Council's WGA return. The findings from our review of the consistency of this return with the audited financial statements will be included in the final version of this report to members of the Audit and Governance Committee.</p>
Use of resources	<p>We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013. We propose issuing an unqualified value for money conclusion.</p>

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

# Audit status and timetable to completion

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

## AUDIT STATUS

We have largely completed our audit work in respect of the financial statements, and anticipate issuing an unqualified opinion on the financial statements.

The following matters are outstanding at the date of this report. We will update this report before distribution to the Audit and Governance Committee and provide a further update if necessary at the Audit and Governance Committee meeting on 25 September 2013.

- finalisation of our audit of HRA
- detailed review of capitalised additions for intangible assets in respect of the Future Model and Agile working
- finalisation of our audit of capital finance
- additional sample testing on grants
- finalisation of our audit of reserves
- completion of our audit of the consolidation of EHL into the group accounts
- receipt of amended final financial statements following agreed amendments
- subsequent events review
- management representation letter, as attached in Appendix VIII to be approved and signed.

## TIMETABLE TO COMPLETE

The anticipated timetable to complete is as follows:

ACTIVITY	DATE
Completion of outstanding audit work on the financial statements	16 September 2013
Final report for agenda publication	17 September 2013
Audit & Governance Committee meeting	25 September 2013
Signing of financial statements (subject to completion of WGA review)	27 September 2013
Completion of audit work on the WGA return and circulation of audit findings	27 September 2013
Signing of WGA and audit certificate	30 September 2013

# INDEPENDENCE

## INDEPENDENCE

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

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to bear on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes.

The procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the audit engagement partner and the audit staff. This document considers such matters in the context of our audit for the year ended 31 March 2013.

A summary of our fees for audit and non-audit services for the period from 1 April 2012 to date is set out below.

We confirm that we are not aware of any relationships that may bear on our independence and objectivity as auditors of the financial statements and that our independence declaration, included in the Audit Plan for 2012/13, has remained valid throughout the period of the audit.

	£
Code Audit fee	88,920
Grants certification fees (estimate)	21,900
Fees for non-audit services	1,000
<b>TOTAL FEES</b>	<b>111,820</b>

# AUDIT SCOPE AND OBJECTIVES

## SCOPE AND OBJECTIVES

The audit scope is determined by the Audit Commission's Code of Audit Practice for Local Government and covers audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland), Practice Note 10: audit of public sector bodies in the United Kingdom (October 2010), and guidance issued by the Audit Commission.

This requires that we form an opinion on whether:

- 1** The financial statements give a true and fair view of the state of the Council's affairs as at 31 March 2013 and of the income and expenditure for the year then ended
- 2** The financial statements have been properly prepared in accordance with statutory requirements and proper practices have been observed in their compilation
- 3** The financial statements have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting
- 4** The information given in the Statement of Accounts and Explanatory Foreword is consistent with the financial statements
- 5** The Annual Governance Statement is not inconsistent with our knowledge and complies with relevant guidance
- 6** The audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources
- 7** The Whole of Government Accounts return is consistent with the audited financial statements and that it is properly prepared

## Materiality

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

We are required to report to you all uncorrected misstatements that relate to the current financial year (including those arising in previous periods that have an effect on the current year financial statements) and the effect that they have individually, or in aggregate, on the opinion in the auditor's report, except for those that are clearly trivial. For reporting purposes, we consider misstatements of less than £35,000 to be trivial and have not reported them, unless the misstatement is indicative of fraud.

# FINANCIAL STATEMENTS

## Key audit and accounting matters

### Significant and other audit risks of material misstatement

We reported our risk assessment, which brought to your attention areas that require additional or special audit consideration and are considered a significant audit risk, in the 2012/13 Audit Plan issued in March 2013. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the Council's draft financial statements, and we have not included any additional significant risks.

Our audit approach was designed to address these significant risks and any relevant issues arising have been set out in the remainder of this report.

### AUDIT RISK AREAS

RISK	RELATED CONTROLS	WORK PERFORMED	CONCLUSION
<b>MANAGEMENT OVERRIDE OF CONTROLS</b>	<p>ISA (UK&amp;I) 240 requires us to presume that a risk of management override of controls is present and significant in all entities.</p> <p>By its nature, there are no controls in place to mitigate the risk of management override.</p>	<p>We reviewed the appropriateness of journal entries and other adjustments made in the preparation of the financial statements. We also reviewed accounting estimates for evidence of possible bias.</p>	<p>No issues have been identified in our review of the appropriateness of journal entries and other adjustments made in the preparation of the financial statements.</p> <p>Our work on accounting estimates has not identified any evidence of bias.</p>
<b>REVENUE RECOGNITION</b>	<p>The largest component of Council income is annual agreed grant and council tax precept which are agreed to notification from Government or the precept on the collection fund.</p> <p>Other significant income streams include rents, council tax and NNDR billing which are recognised at the point that the charge is raised.</p> <p>Remaining significant revenue streams are paid for at the point of service provision, such as license or planning applications, and are recognised at that point.</p> <p>Subsidy income for benefits is calculated based on DWP subsidy calculations and reconciled to underlying benefits paid.</p> <p>Grants and contributions received are reviewed for conditions by finance staff and only recognised as revenue where there are no remaining conditions.</p> <p>Throughout the year budget monitoring meetings are held between finance accountants and the budget holder to discuss the current results of actuals against budget and highlight any areas that look unusual.</p>	<p>We substantively tested a sample of income streams within cost of services to supporting documentation to confirm that income had been accurately recorded in the financial statements and that it had been earned in the period under audit.</p> <p>We substantively tested an extended sample of receipts either side of the year end to ensure that income was complete and accounted for in the correct period.</p> <p>Audit procedures have been carried out to review an extensive sample of grants and other contributions to ensure that they have been recognised correctly in the financial statements or deferred where applicable.</p>	<p>No issues have been identified from our testing of income streams and year end cut off with regard to the recognition of revenue in the relevant financial year.</p> <p>We have not yet fully finalised our testing of grants income however no issues have been identified from our testing to date.</p>

## Key audit and accounting matters (continued)

AUDIT RISK AREAS			
RISK	RELATED CONTROLS	WORK PERFORMED	CONCLUSION
<b>HOUSING REVENUE REFORM AND REVISED CAPITAL ACCOUNTING</b>	Finance staff have reviewed the CIPFA guidance on the impact and proper accounting following the Housing Revenue Account (HAR) reforms and agreed the accounting adjustments for depreciation and the notional Major Repairs Allowance to example workings.	We reviewed the Council's workings alongside CIPFA's guidance on the updated HRA accounting requirements to ensure that they have applied the correct treatment in the year.	<p>Depreciation has been properly charged to the HRA and included in the Major Repairs Allowance to finance capital expenditure. The notional Major Repairs Allowance (MRA) exceeds depreciation by £298,000 and the Council has elected not to charge this additional amount to the HRA. However, the Council has made a transfer from the HRA reserve balance to an HRA earmarked reserve to set aside this additional £298,000.</p> <p>It may be more appropriate, if this is an amount set aside for future capital expenditure, to charge it to the HRA and include it in the Major Repairs Reserve, rather than transferring the amount between reserves. However, we acknowledge that there is likely to be additional flexibility on its future use outside of the Major Repairs Reserve.</p>
<b>MUNICIPAL MUTUAL INSURANCE (MMI) REPAYMENT PROVISION</b>	The scheme administrator has provided each local authority with its proposed levy to fund the forecast deficit on the scheme. Finance staff have used this information to set aside amounts to be repaid as a provision.	We have reviewed the legal guidance provided to the Council which defines the levy and schedule of reimbursement to MMI. We checked to ensure that the Council recognised a provision of 15%.	<p>No issues have been identified from our testing of MMI repayment provision and we are satisfied that the correct amounts have been disclosed in the accounts.</p> <p>There have been no re-payments made up until this point as the matter is still in the process of being finalised.</p>
<b>HERITAGE ASSETS VALUATIONS</b>	Finance staff commissioned a valuation of the works of art from Gorrings and Sotherby's and updated the financial statements for this valuation. This has replaced the previous estimation based on historic insurance values adjusted for RPI.	We have reviewed the skills and experience of the valuers and agreed the valuation adjustments recorded in the financial statements.	<p>We are satisfied that the valuers are suitably independent of the Council, objective and experienced in undertaking their work.</p> <p>The valuation adjustments have been included in the financial statements based on the initial valuation reports. A final, amended, valuation report was received from Sotherby's which increased the values by a further £35,000. However, as this increase was not significant, management has not updated the financial statements. We have recorded this increase as an uncorrected audit difference.</p> <p>We note that, going forward, the Council intends to obtain valuations at 10 year intervals. In our view, for art values in excess of £11 million, management should consider more frequent valuations or apply interim desktop valuations based on recognised relevant indices.</p>



## Key audit and accounting matters (continued)

AUDIT RISK AREAS			
RISK	RELATED CONTROLS	WORK PERFORMED	CONCLUSION
PENSION LIABILITY	<p>The net pension liability comprises the Council's share of the market value of assets held in the East Sussex Pension Fund and the estimated future liability to pay pensions. An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. Their estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation. Management has agreed the assumptions made by the actuary to support the estimate and these are disclosed in the financial statements.</p>	<p>The Audit Commission has obtained an independent review of all local government pension scheme actuaries, which includes an assessment of their independent, objectivity and experience, and also the reasonableness of the assumptions used in the calculation of the scheme liabilities. We have reviewed this and checked that the assumptions used for the Council's scheme liabilities are within reasonable levels.</p> <p>We have also sought assurances from the auditor of the pension fund over the information on membership data and scheme assets provided to the actuary.</p>	<p>We are satisfied that the actuary is suitably independent, objective and experienced to undertake this work and that the assumptions used in the calculations are reasonable.</p> <p>There are adequate controls over the submission of data from the pension fund to the actuary.</p> <p>No issues have been identified from our testing.</p>
VALUATION OF LAND AND BUILDINGS	<p>The Council revalues land and buildings every five years and does not adjust for price indices between formal valuations, unless there is indication of material changes.</p> <p>A report from an independent valuer is obtained to confirm that there has been no indication of material impairment or downward price movements during the year.</p> <p>Material changes in classification of assets may result in a further revaluations where the basis of valuation changes.</p>	<p>We have reviewed management's assertion that there have been no material changes in values during the year.</p> <p>We have also reviewed the valuation adjustment on one property reclassified as available for sale.</p>	<p>Land and buildings are required to be carried at fair value and the Code allows five-yearly valuations as a minimum. We have reviewed price movement indices and concur with management's assertion that there has not been any material change in land and buildings valuations in the year.</p> <p>However, the Code has been updated for 2013/14 and there is an expectation that management will obtain more frequent valuations, either as a desktop review or full valuation, in future years.</p> <p>As a result of our review, we noted that the HRA vacant possession value disclosure had not been updated for dwelling disposals. Management has since corrected this disclosure.</p> <p>We also noted that the valuation of Goffs, transferred to asset held for sale, was on the basis of highest sealed bids at £606,000. However, the sale has not proceeded and has since been valued for sale at £500,000. We also noted that the full £606,000 has been recorded as a valuation gain but should have taken into account its current value of £224,000. We have recorded this as an uncorrected audit difference.</p>

## Key audit and accounting matters (continued)

AUDIT RISK AREAS			
RISK	RELATED CONTROLS	WORK PERFORMED	CONCLUSION
IMPAIRMENT FOR NON COLLECTION OF DEBT	<p>The Council calculates the annual allowance for the impairment of debtors based on its assessment of recoverability.</p> <p>Management reviews all debts, and specific amounts considered irrecoverable are included in the assessed impairment amount at year end.</p> <p>Most categories of the Council's debtors are not subject to substantial fluctuations and management applied percentages to the aged profile of these debts, based on past experience and future expectations of recoverability, to estimate the allowance for doubtful debts.</p>	<p>We reviewed the current impairment provision rates against collection rates in recent years.</p>	<p>Impairment percentages for non -collection of debts are based on collection profiles and these appear to be reasonable.</p>
ACCUMULATED ABSENCES PROVISION	<p>The Council has recorded the amount of holiday pay that employees have earned, but not yet taken at the year end, as a provision of £115,000 in the financial statements.</p>	<p>We have reviewed the accounting treatment and compared this to the requirements of the Code.</p>	<p>The appropriate accounting treatment would be to record this as a creditor, since the liability is more certain than that required for a provision. This has been recorded as an unadjusted error at Appendix 2.</p>
RELATED PARTIES	<p>Information provided by councillors regarding interests is reviewed and related parties identified from accounting records based on the knowledge of finance staff.</p>	<p>We have reviewed the information reported in the financial statements with the underlying accounting records.</p>	<p>We noted that the related party disclosure note had not included the correct amounts paid as grants to voluntary organisations in which four councillors held roles. This disclosure has now been updated to report the total amounts paid as £103,920 rather than £304,000 that was reported in the draft financial statements.</p>
GROUP ACCOUNTS	<p>Management obtain the financial records of Eastbourne Homes Limited and include the relevant transactions and balances in the consolidated group accounts.</p> <p>An independent auditor's report is obtained from the company.</p>	<p>We have reviewed the consolidation of the relevant amounts into the group financial statements.</p>	<p>Our work is on going regarding the consolidation of Eastbourne Homes Limited accounts into the group financial statements and we have yet to receive the auditor's report on the company's financial statements.</p> <p>We note that the Group financial statements include the consolidation of the Eastbourne Homes Limited wholly owned subsidiary. Management has not included any amounts in respect of other associates where it exercises significant influence, rather than control, as these would not be material to the Group financial statements. These include Wealden and Eastbourne Lifeline and Cloud ConnX.</p>

## Key audit and accounting matters (continued)

AUDIT RISK AREAS			
RISK	RELATED CONTROLS	WORK PERFORMED	CONCLUSION
DISCLOSURE REQUIREMENTS	Finance staff prepare the financial statements using the model provided by CIPFA.	We reviewed the detailed disclosure requirements with our knowledge and understanding of the transactions of the Council.	<p>We are in the process of agreeing final presentational and disclosure amendments with management. The following amendments have been made to the draft financial statements as a result of the audit:</p> <ul style="list-style-type: none"> <li>• update Note 18 earmarked reserves to reflect the transfer for the difference between the MRA and depreciation charge of £298,000</li> <li>• inclusion of comments on the future adoption of IFRS 13 Fair value measurement in the 'Accounting standards that have been issued but have not yet been adopted' note</li> <li>• accounting policy for the depreciation charge has been updated to disclose the revised accounting for MRA and the HRA depreciation</li> <li>• additional information and disclosures associated with the group accounts</li> <li>• revision to the operating lease income note by relevant year of income and to include amounts only for the non-cancellable lease term.</li> </ul> <p>We will provide an update of the final presentational changes once we have received the final amended financial statements.</p>

Key: ■ Normal risk ■ Significant risk

### BDO CONCLUSION

Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified true and fair opinion on the financial statements for the Council and Group for the year ended 31 March 2013.

# CONTROL ENVIRONMENT

## Significant deficiencies and other observations

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

As the purpose of the audit is for us to express an opinion on the 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 would highlight that in this report we do not provide a comprehensive statement of all weaknesses that may exist in the financial and operational systems, but only those matters which have come to our attention as a result of the audit procedures performed. We only restate weaknesses already reported by Internal Audit where we consider these to be significant deficiencies.

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE
<b>THEATRE CASH AND BANK RECONCILIATIONS</b>	We have previously reported, and the Council has recognised in the Annual Governance Statement, that the Council has not been completing the monthly reconciliations for the Theatre cash and bank reconciliations ('databox' reconciliations) that it's procedures expect, and that when reconciliations are carried out variances were not investigated.	We believe that this issue exposes the Council to a risk of misappropriation of assets. Furthermore, amounts could be incorrectly or inaccurately processed which, ultimately, would result in the financial statements being misstated.	We recommend that the Council implements the actions proposed in the Annual Governance Statement, to ensure that reconciliations are completed on a monthly basis and that any variances are investigated in a timely manner, in accordance with the Council's procedures.	
<b>DEPRECIATION</b>	We noted that the Council's policy for depreciation and amortisation is that no amounts are charged in the year of acquisition and the final charge is included for the full year in the year of disposal.	This may result in a depreciation and amortisation charge that does not appropriately reflect the consumption of benefits, particularly in any year where there is significant capital expenditure early in the year.	We recommend that depreciation and amortisation should commence in the month following acquisition (or at least quarterly).	

## Significant deficiencies and other observations (continued)

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE
TITLE TO LAND AND BUILDINGS	We noted from our review of records obtained from the Land Registry that a number of properties and land that were transferred to East Sussex County Council many years ago are still recorded in the name of Eastbourne Borough Council.	These inconsistencies between the asset register and official title deed records may result in issues should East Sussex County Council decide to dispose of these assets.	We recommend that management obtain a full list of assets held, compare this to the official records held by the Land Registry and resolve any inconsistencies.	

We made the observations reported to you above during the course of our normal audit work.

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

## MATTERS REQUIRED TO BE REPORTED BY OTHER AUDITING STANDARDS

### Whole of Government Accounts (WGA)

We are required to perform tests with regard to the WGA return prepared by the Council for use by the Department of Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level. This work requires checking the consistency of the WGA return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.

### Audit issues and impact on opinion

We have not yet reviewed the Council's WGA return. The findings from our review of the consistency of this return with the audited financial statements will be included in the final version of this report to members of the Audit and Governance Committee.

### Annual Governance Statement

We are required to review the draft Annual Governance Statement and to be satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council's review of effectiveness and our knowledge of the Council.

### Audit issues and impact on opinion

We have not yet reviewed the Council's Annual Governance Statement. The findings from our review of the consistency of this statement with the governance arrangements at the Council will be included in the final version of this report to members of the Audit and Governance Committee.

# USE OF RESOURCES

## Scope of the review

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

In accordance with our audit plan, our principal work in arriving at our value for money conclusion was comparing the Council's performance against the requirements specified by the Audit Commission in its guidance to auditors. This is based on the following two reporting criteria:

- the organisation has proper arrangements in place for securing financial resilience
- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

### Focus criteria

The focus of the criteria for 2012/13 is:

- the organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
- the organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity undertaking other local risk-based work, as appropriate.

## Financial resilience

### Work performed

Our financial resilience risk assessment considered the Council's arrangements for financial governance, financial planning and financial control. Our detailed work also considered the Council's arrangements for managing financial risks and opportunities and securing future financial stability.

Our risk based planning identified that the Council continues to need to identify or achieve the significant savings and efficiencies in the medium term to respond to the reduction in government funding and other financial pressures.

### Audit issues and impact on conclusion

For 2012/13 the Council originally budgeted to utilise £628,000 of General Fund balances to meet the expenditure requirements for the year. By the end of the year the Council needed to utilise £744,000 of General Fund balances to meet expenditure, having also utilised £403,000 of earmarked reserves. As a result the General Fund balance has reduced from £4.7 million at the start of the year to £3.9 million at the end of the year, compared to the minimum level of £2.0 million recommended by Chief Finance Officer. The level of earmarked reserves has decreased from £3.8 million to £3.4 million. Overall this represents a significant reduction in the level of reserves and the Council will need to manage the corporate position with a strong overall level of financial control, and in order to continue to deliver against the budgets of future years.

The Medium Term Financial Strategy (MTFS) was updated during the year identifying that there is a budget gap of £3.6 million over the four year period to 2016/17, following the financial settlement announced during the year. The Council recognises that this gap needs to be addressed and is planning to identify savings and make use of the Sustainable Service Delivery Strategy and procurement savings to assist with identifying these. It should be noted that the budget gap exists even after the planned utilisation of £1.0 million of General Fund reserves in the four year period to 2016/17.

## Financial resilience (continued)

### Work performed

### Audit issues and impact on conclusion

The general reserves balance will reduce to £3.0 million if the reserves anticipated by the MTFS are utilised. However this remains in excess of the minimum level of balances recommended by the Chief Finance Officer of £2.0 million.

The 'Drive' efficiency programme continues to provide the overarching project delivery framework and has secured significant savings in recent years. The key corporate project managed under the 'Drive' framework remains the Sustainable Service Delivery Strategy. Both initiatives continue to be underpinned by the service and financial planning process which was revised and updated in the lead up to publishing the Council's 'future operating model' delivery framework in April 2012. The model is due to be implemented across the organisation, reconfiguring services and staff structures using new technologies and business processes.

Clear leadership has been shown on financial planning matters through the work of the Cabinet and the Corporate Management Team to prepare for, and then respond to, the Government's Comprehensive Spending Reviews and known financial settlements. It is important that this is continued as the Council faces the challenge of delivering the change required to remain sustainable into the medium term.

The Council financial position is challenging, with a need to deliver significant change in the way services are delivered in order to maintain a sustainable financial position into the medium term. The Council recognises this and we will continue to monitor the Council's savings plans and reserve position.

## Challenging economy, efficiency and effectiveness

### Work performed

### Audit issues and impact on conclusion

Our risk assessment and review of economy, efficiency and effectiveness has considered the Council's arrangements for prioritising resources within tighter budgets and improving efficiency and productivity.

The budget for 2012/13 was built upon the budget for the previous year. As the Council continues to challenge the resource allocation in the next round of budget and medium term financial planning, the Council must ensure that, as well as challenging the quantum of resource required to achieve savings, it continues to focus resources to address the Council's priorities, and re-visit these priorities to ensure that they remain appropriate to the needs of stakeholders and service users.

Members have a clear understanding of the Council's financial challenges and are being supportive of officers in the budgetary process.



## Challenging economy, efficiency and effectiveness (continued)

### Work performed

### Audit issues and impact on conclusion

Key focus areas in the medium term continue to include:

- ensuring that financial benefits continue to be realised from the work being done on Sustainable Service Delivery Strategy
- ensuring that financial benefits are realised from the work being done on rationalising and renegotiating external contracts through the work on procurement
- monitoring both cost and performance to demonstrate to members that despite significant reductions in costs, services continue to deliver services in line with corporate priorities to demonstrate the achievement of value for money.

The Council demonstrated its openness to challenge by agreeing that the Local Government Association should undertake a 'peer challenge' during the year to provide an external view of the organisation and to assess its plans to meet identified challenges and opportunities for the area. Specific feedback was sought on further action the Council should take to ensure sustainable service delivery in the longer-term. The review team recognised the significant improvements the Council has made in a relatively short period of time to stabilise the financial position and provide a sound platform for delivering future priorities. It also highlighted the improvements made in the Council's arrangements for managing performance and ensuring its priorities are clearly articulated and consistently understood across the organisation and among strategic partners.

The Council accepted the review team's conclusions and continues to implement the key recommendations made around the economic development strategy, branding, review of key strategies and communications.

The Council has undertaken a 2013 refresh of the Corporate Plan for 2010-2015 to update for the latest position and focus on priorities for 2013/14.

We have also reviewed current performance against the Council's key targets.

Performance towards key projects underpinning achievement of the Council's four cross cutting themes (a Prosperous Economy; Quality Environment; Thriving Communities and Sustainable Performance) is regularly monitored by the Cabinet through the quarterly Corporate Performance Report.

For the year to 31 March 2013, 28 out of the Council's 39 key performance indicators achieved their targets, with the some key highlights being:

- sickness absence has been maintained at low levels with an average of 5.27 days reported in 2012/13
- income collection targets for business rates was exceeded, with a 98.76% collection rate, whereas although Council Tax collection missed the target set, a collection rate of 97.05% was still achieved in difficult economic circumstances

## Challenging economy, efficiency and effectiveness (continued)

Work performed	Audit issues and impact on conclusion
	<ul style="list-style-type: none"><li>recycling levels remained static, missing the target for small improvement, but the introduction of the new contract arrangements is expected to deliver a step change increase in performance, at the same time as reducing the costs of the service</li><li>crime reduction targets were all met</li><li>housing targets were met, although much of the housing enabling investment has slipped into 2013/14</li><li>the time taken to process Housing and Council Tax Benefit new claims and change events improved further to 9.4 days, surpassing the target of 13 days.</li></ul> <p>The performance delivered during 2012/13 illustrates that while the Council continues to make improvements in some areas, there remains scope to deliver improvement in other areas.</p> <p>Partnership working with other public sector organisations and the voluntary and community sector underpins the Council's approach to value for money. The Council Plan contains clear commitments to partnership working in providing services to local people.</p> <p>The Council continues to work effectively with other local authorities, as demonstrated by the progression of strategic partnerships for waste, other jointly provided services and through the outcome of the work of the Community Safety Partnership in reducing crime.</p> <p>The Council continues to challenge the way services are delivered in response to addressing the medium term financial position. We will continue to monitor the Council's progress in delivering the 'Drive' efficiency programme and the impact that this has on the delivery of sustainable, improving service performance.</p>

### BDO CONCLUSION

We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013. We propose issuing an unqualified value for money conclusion.



# APPENDICES

## APPENDIX I: DEFINITIONS

TERM	MEANING
<b>The Council</b>	Eastbourne Borough Council
<b>Management</b>	The person(s) responsible for achieving the objectives of the Council and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for the financial statements, including designing, implementing, and maintaining effective internal control over financial reporting.
<b>Those charged with governance</b>	The person(s) with responsibility for overseeing the strategic direction of the Council and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance for the Council are the Audit, Best Value and Community Services Scrutiny Committee and the Governance Committee.
<b>ISAs (UK &amp; Ireland)</b>	International Standards on Auditing (UK & Ireland)
<b>IAS</b>	International Accounting Standards
<b>IFRS</b>	International Financial Reporting Standards as adopted by the European Union
<b>Materiality</b>	The size or nature of a misstatement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable user of the financial statements would have been changed or influenced as a result of the misstatement.
<b>Code</b>	Code of Practice on Local Authority Accounting in the United Kingdom 2012/13
<b>CIES</b>	Comprehensive Income and Expenditure Statement
<b>SeRCoP</b>	Service Reporting Code of Practice for Local Authorities 2012/13
<b>WGA</b>	Whole of Government Accounts

## APPENDIX II: UNADJUSTED AUDIT DIFFERENCES

We are required to bring to your attention unadjusted audit differences that the Audit and Governance Committee are required to consider. A schedule of such adjustments is included below and, with the exception of the errors that relate to prior year misstatements, we request that you correct them. Identified misstatements for the current year should, where practicable, be corrected even if not material.

There are three unadjusted audit differences identified by our audit work for the current year, which would have no impact on the CIES and reducing net assets and reserves by £106,000. Management considers these identified misstatements to be immaterial in the context of the financial statements taken as a whole. We concur with this judgement.

UNADJUSTED AUDIT DIFFERENCES	CIES (OVER) / UNDER £'000	Income (over) / under £'000	Expenses over / (under) £'000	Net assets (over) / under £'000	Reserves over / (under) £'000	TOTAL IMPACT ON NET ASSETS (OVER) / UNDER £'000
CIES deficit for the year before adjustments	2,454					187,908
<b>Misstatements identified in the current year</b>						
The accumulated absences earned but not yet taken have been reported as a provision, instead of a creditor in the financial statements.	0	0	0	115 (115)	0	0
Provisions overstated by £115,000, creditors understated by £115,000.						
Sotheby's provided an additional valuation report increasing the heritage assets valuation by £35,000.	0	0	0	35	35	35
Valuation of the Goffs, transferred to asset held for sale, was on the basis of highest sealed bids at £606,000. However, the sale has not proceeded and the Goffs has since been valued for sale at £500,000. We also noted that the full £606,000 has been recorded as a valuation gain but should have taken into account it's current value of £224,000.	0	0	0	(106)	(106)	(106)
Revaluation gain and Asset Held for Sale value overstated by £106,000						
Revaluation reserve overstated by £106,000						
<b>TOTAL UNADJUSTED AUDIT DIFFERENCES</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(71)</b>	<b>(71)</b>	<b>(71)</b>
<b>Deficit for the year and net assets if adjustments accounted for</b>	<b>2,454</b>					<b>187,837</b>

The impact on the Group accounts would be consistent with the above treatment.

## APPENDIX III: MATERIALITY

MATERIALITY	COUNCIL	GROUP
Planning materiality	£1,175,000	£1,175,000
Final materiality	£1,175,000	£1,175,000
Clearly trivial threshold	£35,000	£35,000

Planning materiality of £1,175,000 for the Council and Group was based on 1% of the 3 year average gross expenditure of the Council. We have no reason to revise our final materiality level.

## APPENDIX IV: INDEPENDENCE

### INDEPENDENCE - ENGAGEMENT TEAM ROTATION

SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDED
LEIGH LLOYD-THOMAS - Audit engagement partner	1	2017/18
ANDREW BARNES - Senior manager	1	2017/18

### INDEPENDENCE - THREATS TO INDEPENDENCE AND APPROPRIATE SAFEGUARDS

We have not identified any potential threats to our independence as auditors of the 2012/13 financial statements.

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

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

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

## APPENDIX V: ACTION PLAN

RECOMMENDATIONS				
CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
<p><b>Heritage Assets</b></p> <p>We note that, going forward, the Council intends to obtain valuations at 10 year intervals. In our view, for art values in excess of £11 million, management should consider more frequent valuations or apply interim desktop valuations based on recognised relevant indices.</p>	<p>We recommend management should consider more frequent valuations of heritage assets, or apply interim desktop valuations based on recognised relevant indices.</p>			
<p><b>Revaluations</b></p> <p>Land and buildings are required to be carried at fair value and the Code allows five-yearly valuations as a minimum. We have reviewed price movement indices and concur with management's assertion that there has not been any material change in land and buildings valuations in the year.</p> <p>However, the Code has been updated for 2013/14 and there is an expectation that management will obtain more frequent valuations, either as a desktop review or full valuation, in future years.</p>	<p>We recommend management should consider more frequent valuations of land and buildings, or apply interim desktop valuations based on recognised relevant indices.</p>			
<p><b>Depreciation</b></p> <p>We noted that the Council's policy for depreciation and amortisation is that no amounts are charged in the year of acquisition and the final charge is included for the full year in the year of disposal.</p>	<p>We recommend that depreciation and amortisation should commence in the month following acquisition (or at least quarterly).</p>			



**RECOMMENDATIONS**

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
<p><b>Land registry records</b></p> <p>We noted from our review of records obtained from the Land Registry that a number of properties and land that were transferred to East Sussex County Council many years ago still appear in the name of Eastbourne Borough Council.</p>	<p>We recommend that management obtain a full list of assets held and compare this to the official records held by the Land Registry.</p>			

**INTERNAL CONTROL RECOMMENDATIONS**

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
<p><b>Theatre cash reconciliations</b></p> <p>We have previously reported, and the Council has recognised in the Annual Governance Statement, that the Council has not been completing the monthly reconciliations for the Theatre cash and bank reconciliations ('databox' reconciliations) that it's procedures expect, and that when reconciliations are carried out variances were not investigated.</p>	<p>We recommend that the Council implements the actions proposed in the Annual Governance Statement, to ensure that reconciliations are completed on a monthly basis and that any variances are investigated in a timely manner, in accordance with the Council's procedures.</p>			

## APPENDIX VI: FEES SCHEDULE

The Audit Commission's *Standing Guidance for Auditors* requires us to report the outturn fee position for the year against the budgeted fee included within our Audit Plan.

We will carry out a detailed comparison of actual audit costs incurred against planned costs when we have completed the audit and discuss any impact on the planned fee of £110,820 with management before we report the final fee outturn.

## APPENDIX VII: STATUTORY AND PROFESSIONALLY REQUIRED COMMUNICATIONS

COMMUNICATION REQUIRED	DATE COMMUNICATED	TO WHOM	METHOD
	25 September 2013	Management and those charged with governance	Report to Audit and Governance Committee
Potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements.	Not an issue	Not an issue	Not an issue
Misstatements, whether or not recorded by the entity	✓	✓	✓
The final draft of the representation letter	✓	✓	✓
Material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern	Not an issue	Not an issue	Not an issue
Disagreements with management about matters that, individually or in aggregate, could be significant to the entity's financial statements or our audit report	Not an issue	Not an issue	Not an issue
Expected modifications to our audit report or inclusions of emphasis of matter / other matter	Not an issue	Not an issue	Not an issue
Significant deficiencies in internal control	✓	✓	✓
Any other matters warranting attention by those charged with governance, such as questions regarding management integrity, and fraud involving management	Not an issue	Not an issue	Not an issue
Management judgements and accounting estimates	✓	✓	✓
Other information in documents containing audited financial information	✓	✓	✓
Consultation with other accountants	Not an issue	Not an issue	Not an issue
Major issues discussed with management	Not an issue	Not an issue	Not an issue

## APPENDIX VIII: DRAFT REPRESENTATION LETTER

*The following draft letter of representation covers the Council's Statement of Accounts, including the Group financial statements. Representations for the preparation of the Statement of Accounts will be sought from the Chief Finance Officer and from Members on behalf of the Council in relation to its responsibility to approve the Statement of Accounts and the Annual Governance Statement.*

BDO LLP  
55 Baker Street  
London  
W1U 7EU

25 September 2013

Dear Sirs

### **Financial statements of Eastbourne Borough Council and the Group for the year ended 31 March 2013**

This representation letter is provided in connection with your audit of the financial statements of Eastbourne Borough Council and the Group for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view, have been properly prepared in accordance with the relevant financial reporting framework and have been prepared in accordance with the requirements of applicable law.

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of directors and officers of the Council, the following representations given to you in connection with your audit of the financial statements:

#### **FINANCIAL STATEMENTS**

##### **Responsibility for financial statements**

I acknowledge as the Chief Finance Officer and s151 Officer my responsibilities for the Statement of Accounts, which include the financial statements, and for ensuring that these are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom and have been prepared in accordance with the requirements of applicable law.

##### **Significant assumptions**

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

##### **(a) Pension fund assumptions**

I 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 my knowledge of the business. These assumptions include:

- |  |      |
|--|------|
| • Rate of increase in salaries   | 5.1% |
| • Rate of increase in pensions and RPI   | 2.8% |
| • Expected return on assets  | 4.5% |
| • Rate for discounting scheme liabilities  | 4.5% |
| • Take up option to convert the annual pension into retirement grant - pre 31 March 2008 | 50%  |
| • Take up option to convert the annual pension into retirement grant - post April 2008   | 75%  |

I 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

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

(c) Carrying value of land and buildings

I am satisfied that the carrying value of land and buildings is materially consistent with the fair value at 31 March 2013, and that no adjustment is required to those assets that were revalued as part of the five-year rolling programme in previous years.

### **Accounting policies**

I confirm that the selection and application of the accounting policies used in the preparation of the financial statements are appropriate.

### **Plans or intentions**

I confirm that the Council has no plans or intentions that may materially alter the carrying value and, where relevant, the fair value measurements or classification of assets and liabilities reflected in the financial statements.

### **Litigation and claims**

I have disclosed to you all known actual or possible litigation and claims, the effects of which should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the applicable financial reporting framework.

### **Related parties**

I confirm that related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the applicable financial reporting framework.

### **Subsequent events**

All events occurring subsequent to the date of the financial statements for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.

### **Uncorrected misstatements**

You have brought to my attention potential misstatements in the financial statements as listed in the appendix to this letter. I do not wish to amend the financial statements to reflect any of these items as I believe that they are immaterial both individually and in aggregate to the view given by the financial statements as a whole.

### **Going concern**

I confirm that I am satisfied that it is appropriate for the financial statements to have been drawn up on the going concern basis. In reaching this conclusion I have taken into account all relevant matters of which I am aware and have considered a future period of at least one year from the date on which the financial statements will be approved.

## **INFORMATION PROVIDED**

### **Completeness of information**

All the accounting records have been made available to you for the purpose of your audit. I have provided you with all other information requested and given unrestricted access to persons within

the Council from whom you determined it necessary to obtain audit evidence. All other records and related information, including minutes of all management and Committee meetings held during the year and up to the date of this letter have been made available to you.

All transactions undertaken by the Council have been recorded in the accounting records and are reflected in the financial statements.

There is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware.

#### **Internal Control**

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

I have communicated to you all significant deficiencies in internal control of which I am aware.

#### **Fraud**

I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated as a result of fraud.

I have disclosed to you my knowledge of fraud or suspected fraud affecting the Council and Group involving management, employees who have significant roles in internal control or others where the fraud could have a material effect on the financial statements

I have disclosed to you my knowledge of any allegations of fraud, or suspected fraud affecting the financial statements communicated to me by employees, former employees, analysts, regulators or others.

#### **Compliance with laws and regulations**

I am not aware of any actual or possible instances of non-compliance with laws and regulations whose effects should be considered when preparing the financial statements of the Council.

#### **Related parties**

I confirm that I have disclosed to you the identity of the Council's and Group's related parties, related party relationships and transactions of which I am aware.

#### **Liabilities, contingent liabilities or guarantees**

There are no liabilities, contingencies or guarantees to third parties other than those disclosed in the financial statements.

#### **Title to assets**

The Council and Group has satisfactory title to all assets and there are no liens or encumbrances on the assets except for those disclosed in the financial statements.

#### **Contractual agreements**

The Council and Group has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

Yours faithfully

**Alan Osborne**  
Chief Finance officer

## **Representations of the Council**

We confirm to the best of our knowledge and belief, and having made appropriate enquiries of other officers and members of the Council, the following representations given to you in connection with your audit of the Council's financial statements.

### **Responsibility for the financial statements**

We acknowledge our responsibilities to make arrangements for the proper administration of the Council's financial affairs and to approve the Statement of Accounts, which include the financial statements. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which include the financial statements, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

### **Uncorrected misstatements**

We have considered the uncorrected misstatements in the financial statements as listed in Appendix 1 to this letter together with the explanations provided by the Chief Finance Officer for not correcting these misstatements, and we consider them to be immaterial to the view given by the financial statements.


### **Annual Governance Statement**

We confirm that the Council has conducted a review during the year of the effectiveness of its system of internal control. We are satisfied that the Annual Governance Statement appropriately reflects the circumstances of the Council and includes an outline of the actions taken, or proposed, to deal with significant internal control issues.

Yours faithfully

**Councillor Ungar**  
**Chair of the Audit and Governance Committee**

For and on behalf of Eastbourne Borough Council



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

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