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Borough Council

Working in partnership with **Eastbourne Homes**

24 February 2023

Dear Members

Audit and Governance Committee - 1 March 2023

I am now able to enclose, for consideration, the following report and appendices at the above meeting that were unavailable when the agenda was printed.

Item No	**Item 7**

7 **External Audit - 2019/20 (Pages 3 - 46)**

An update from External Auditor, Deloitte.

Yours sincerely

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Report to:	**Audit and Governance Committee**
Date:	**1 March 2023**
Title:	**The External Auditors (Deloitte) report on the draft 2019/20 Statement of Accounts**
Report of:	**Director of Finance and Performance (Chief Finance Officer - S151 Officer)**
Ward(s):	**All**
Purpose of report:	**To review the External Auditor's (Deloitte) report to those charged with governance regarding the draft 2019/20 Statement of Accounts.**
Decision type:	**Budget and Policy Framework**
Officer recommendation(s):	**The Committee is recommended to:** **1. Note the Independent Auditor's (Deloitte) report as those charged with governance on EBC Accounts, and the Value for Money conclusion report.** **2. Delegate authority to the Chief Finance Officer in consultation with the Chair of the Committee to sign-off the audited Eastbourne Borough Council 2019/20 Statement of Accounts.** **3. Authorise the Chief Finance Officer to sign the formal Letter of Representation to Deloitte.**
Reasons for recommendations:	**The Council is required to produce an Annual Statement of Accounts in line with the Accounts and Audit Regulations.**
Contact Officer:	**Name: Ola Owolabi** **Post title: Deputy Chief Finance Officer** **E-mail: ola.owolabi@lewes-eastbourne.gov.uk** **Telephone number: 01323 415083**

1 Background

1.1 The Government abolished the Audit Commission in 2012, and its audit practice was outsourced to private audit firms. The regulations for this Act disbanded the residual Audit Commission and introduced a new local audit framework. The Government's closure of the Audit Commission was expected to save over £1bn.

Public Sector Audit Appointments Limited (PSAA)

1.2 Public Sector Audit Appointments Limited (PSAA) was incorporated by the Local Government Association (LGA) in August 2014.

1.3 In July 2016, the Secretary of State for Housing Communities and Local Government specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

1.4 Acting in accordance with this role PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme.

1.5 PSAA produces quarterly reports on the contracted firms, building up information as the year progresses. The data pack covers audit opinions, approved fee variations and electors' objections as at 31 December 2022.

1.6 The fact that only 12% of audit opinions met the publishing date of 30 November 2022 for 2021/22 audited financial statements underscores the scale of the challenge that local audit and local authorities are facing. By the end of December 2022 this figure had risen slightly to 15%.

1.7 The backlog of unfinished audits continues to be very concerning. In total over 630 audit opinions were recorded as delayed at 30 November 2022.
S Freer (PSAA Chair) commented: "The local audit system desperately needs to find a way of clearing the backlog and restoring the norm of timely opinions as quickly as possible."

Firm	**Total Audit**	**Outstanding no**	**Outstanding % 31 Dec 2022**
BDO	25	25	100%
DL	**26**	**25**	**96%**
EY	149	140	94%
GT	189	134	75%
Mazars	87	75	85%

Audit Opinion Data- 2021 audit -PSAA Quarterly monitoring Q3 2022

Eastbourne Borough Council Audit

1.8 After a considerable examination and following a number of formal and informal discussions with the PSAA, the Council decided to opt in for another term of PSAA audit appointment. The Council has been advised that Grant Thornton (GT) will be the authority's future auditors after a period of hand over from Deloitte to GT which is expected to start later in 2023.

1.9 With a number of accounts yet to be audited, the Council's Chief Executive and Chief Finance Officer (S151 Officer) met with Deloitte's senior officers in March 2021. Following this meeting Deloitte issued a revised audit timetable providing the Council with assurance that adequate capacity will be built in and the audit of the outstanding accounts will be completed by end of 2021/22 financial year.

Since then there have been a number of follow up meetings and a number of revised timelines. The latest agreed revised audit timeline is as set out below:

	2020:		
	Submission of final papers		**Committee**
EBC	20-Feb-23		01-Mar-23
	2020/21:		
	Commencement	**Team until**	**Committee** (and so signing not before)
EBC	15-Feb-23	20-Apr-23	31-Jul-23
	2021/22:		
	Commencement		**Committee** (and so signing not before)
EBC	14-Aug-23		30-Nov-23
	2022/23:		
	Commencement		**Completion**
EBC	03-Jan-24		31-Mar-24

1.10 It is therefore disappointing that this latest revised completion deadline is once again missed. This, however, is presenting the Council with a significant and serious risk of Deloitte not being in the position to handover the function to GT the Council's newly appointed auditors and in doing so, the build-up of unaudited accounts to continue.

1.11 The Committee is also reminded that every day delayed comes at a cost, financial cost, reputational cost and governance cost. Considering the Council's Pre-election period and Local Elections, it could be that the next opportunity for the Committee to approve the 2019/20 accounts will be no sooner than July 2023 should the Committee decide not to accept the recommendation included in this report.

This recommendation has been made based on the following expectations as indicated by Deloitte as reflected in paragraph 2.4 and 2.5.

2 Introduction

2.1 This report summarises the key findings (Appendix A) arising from Deloitte final audit work in relation to the Council's 2019/20 financial statements, and on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

2.2 The completion of the audit was delayed, primarily due to various resource issues and challenges of determining the appropriate accounting treatment, valuation, entries in respect of the Council’s financial guarantee arrangements and Group financial statements issues.

2019/20 Statement of Accounts

2.3 Under its terms of reference, it is the role of this Committee to review/approve the annual statement of accounts and the external auditor’s report as those charged with governance, having considered whether appropriate accounting policies have been followed, and any issues raised by Deloitte from the audit of the accounts.

2.4 The auditors envisage issuing an unqualified audit opinion on the 2019/20 Council’s financial statements subject to resolution of outstanding areas for completion, which include:

- review of the updated statement of accounts;
- completion of work on ICE financial instrument valuations;
- completion of working through support received for sundry open areas of testing;
- completion of quality assurance review procedures;
- receipt of signed management representation letter; and
- review of subsequent events through to signing.

2.5 Deloitte has also completed the review of the arrangements made by the Council to secure economy, efficiency, and effectiveness in the use of resources (Value for Money - VFM) and did not identify any significant VFM risks in 2019/20. Deloitte is satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020, and did not feel it necessary to report on any particular points on value for money issues.

Letter of Representation 2019-20

2.6 Each year, on completion of the audit of the Council's Financial Statements, the Chief Finance Officer is required to submit a Letter of Representation to the Council's external auditor. The letter formally and publicly confirms the accuracy and completeness of the presented Statement of Accounts. A copy of a draft letter is attached as Appendix B.

2.7 On receipt of the signed Letter of Representation, the Council's external auditor will formally issue an opinion on the Financial Statements.

3 Corporate plan and Council policies

3.1 Considered as part of the overall Accounts and Audit Regulations requirement and the timescales.

4 Financial appraisal

4.1 There are no direct financial considerations arising from this report. However, there are significant financial implications caused by the delay in the audit of the accounts.

5 Legal implications

5.1 The Accounts and Audit Regulations 2015 require the Statement of Accounts to be considered and approved by way of a committee resolution and thereafter published. Further comment from the Legal Services Team is not necessary for this routine monitoring report.

6 Risk management implications

6.1 There are no implications arising from this report.

7 Equality analysis

7.1 Equality issues are considered

8 Appendix

- Appendix A – Deloitte's update report to the Audit and Governance Committee on the audit for the year ended 31 March 2020, (included in main agenda pack but attached again for completeness).
- Appendix B - Draft Management Representation Letter.
- Appendix C – Deloitte's letter to the Audit and Governance Committee in November 2022 on the audit for the year ended 31 March 2020 (Eastbourne Borough Council's ISA260 report to the Audit and Governance Committee in November 2022)

9 Background papers

The Background Papers used in compiling this report:

Draft 2019/20 Statement of Accounts

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Eastbourne Borough Council

Update to the Audit & Governance Committee on audit status

Issued for the meeting on 1 March 2023

Deloitte Confidential: Government and Public Services

Status update on the 2019/20 audit

Status update on the 2019/20 audit

Our work on the 2019/20 audit is substantially complete. We will update you orally in the meeting if any matters remain outstanding.

We reported to the November Audit & Governance Committee on our ISA 260 findings from our audit, which was at an advanced stage.

We have continued to work with the finance team to finalise the audit, with staff allocated through to April 2023 to progress the 2020 and then 2021 audits, and staffing from July for subsequent audits.

No additional unadjusted misstatements have been identified.

The audit team has held on-going discussions in the form of weekly meetings and update meetings to resolve any matters impacting the audit.

The table below summarises the status of the matters that had been outstanding in our report.

Area	Status
Review of the updated statement of accounts which reflects the agreed adjustments from issues noted during the audit, including arithmetic checks and tie through of amounts reflected on the updated statement of accounts.	We have reviewed the updated accounts. We have fed back to the Council a number of items to correct (e.g. arithmetic errors/consistency) in the final version of the statement of accounts, and have received an updated version of the financial statements.
Completion of work on ICE financial instrument valuations (dependent on receipt of support for fair values), and equity accounting (dependent on receipt of evidence for underlying property valuation in IIL).	We have received support for the IIL property valuation as at 31 March 2020, and reviewed with support of our property valuation specialist. We have received support for the fair values used, and considered the appropriateness of the assumptions used with support of our financial instrument specialist. Due to the state of markets at 31 March 2020, there is a greater judgement in the inputs used, including discount rates, than in 2018/19, and this is likely to be the case for future periods also. Our work in this area is subject to completion of quality assurance reviews.
Infrastructure assets – review of management's assessment of asset lives and changes for the code changes.	Following the issue of a Statutory Instrument on Infrastructure on 25 December 2022, and the accompanying January 2023 CIPFA guidance, the Council has taken the statutory override and updated the disclosures in the financial statements meaning that only the net book value of infrastructure assets is disclosed. We agree this approach is appropriate, and have no issues to raise from our review of asset lives.
Completion of working through support received for sundry open areas of testing and any follow-up queries arising.	We have received support for the areas of testing outstanding.
Completion of quality assurance review procedures, including on the updated statement of accounts.	Following the completion of the above areas, we are completing the final quality assurance reviews.
Receipt of signed management representation letter, and update of our review of subsequent events through to signing.	These final procedures follow completion of above areas.

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Our Ref:

Dear Engagement Lead

This representation letter is provided in connection with your audit of the financial statements of Eastbourne Borough Council and its subsidiaries (the “Council” and together the “Group”) for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the Council and the Group as of 31 March 2020 and of the results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with the applicable law and the CIPFA /LASAAC Code of Practice on Local Authority Accounting.

We confirm, to the best of our knowledge and belief, the following representations.

Financial statements

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the applicable law and the CIPFA /LASAAC Code of Practice on Local Authority Accounting which give a true and fair view, as set out in the terms of the audit engagement letter.

2. Significant assumptions used by us in making accounting estimates, including those measured at fair value and assessing the impact of Covid-19 on the Group are reasonable. We have specifically considered the impact of Covid-19 and we do not consider that any matters arising in relation to this have impacted the measurement of items as at 31 March 2020. We have made the relevant disclosures regarding the impact of this subsequent to this date in both the narrative and notes to the Statement of Accounts.

3. The assumptions and judgements used by us specifically in valuing the loan and rental guarantees and related receivables associated with the arrangements entered into by group company Infrastructure Company Eastbourne Ltd, with Infrastructure Investments Leicester Ltd as the counterparty, are reasonable and reflect our best judgement of assumptions at inception of the agreement and as at 31 March 2020, including in accounting for the Joint Venture interest in the group accounts.

4. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of *IAS24 “Related party disclosures”*.

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

6. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements and disclosure deficiencies is detailed in the appendix to this letter

7. We confirm that the financial statements have been prepared on the going concern basis and disclose in accordance with IAS 1 all matters of which we are aware that are relevant to the Council and the Group's ability to continue as a going concern, including principal conditions or events and our plans. We do not intend to liquidate the Group or cease operations as we consider we have realistic alternatives to doing so. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Council and the Group's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.

8. The measurement processes, including related assumptions and models used to determine accounting estimates in the context of applicable financial reporting framework are appropriate and have been applied consistently.

9. The assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity where relevant to the accounting estimates and disclosures.

10. The disclosures related to accounting estimates under the entity's applicable financial reporting framework are complete and appropriate.

11. There have been no subsequent events that require adjustments to the accounting estimates and disclosures included in the financial statements.

12. The Group has satisfactory title to all assets and there are no liens or encumbrances on the Group's assets and assets pledged as collateral

13. We have recorded or disclosed, as appropriate, all liabilities both actual and contingent

14. We are not aware of any deficiencies in internal control other than as raised in audit process, by internal audit, or disclosed in the Annual Governance Statement and Addendum to the Annual Governance Statement.

15. We have reviewed our provisioning for NNDR, Council tax and HRA debtor provisioning, and consider the assumptions in respect of recoverability to reflect our best assessment of the recoverable amount of these balances.

16. All minutes of member and management meetings during and since the financial year have been made available to you.

17. With respect to the revaluation of properties in accordance with the Code:
    a) the measurement processes used are appropriate and have been applied consistently, including related assumptions and models; the assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity where relevant to the accounting estimates and disclosures;
    b) the disclosures are complete and appropriate.
    c) there have been no subsequent events that require adjustment to the valuations and disclosures included in the financial statements. The information supplied for the valuation of the Group's property and investment property assets includes up to date rental and other relevant data to inform the valuation, and there are no circumstances we are aware of that would impact upon the valuation of assets (such

as issues with condition) that have not been shared with the valuer.

d) we have considered the movement in property values between 31 December 2019 and 31 March 2020 and do not consider this material to the financial statements.

We have considered the valuation of the Group's Property, Plant and Equipment, and are not aware of any circumstances indicating volatility in asset values for properties not revalued in the year that might indicate a valuation is required.

We have considered the valuation of the Group's Property, Plant and Equipment, and we are not aware of any other errors or inconsistencies, and the overall valuation movement recognised is in line with that expected from the work of the valuer.

18. We have reconsidered the remaining useful lives of the Group's Property, Plant and Equipment and confirm that the present rates of depreciation are appropriate to amortise the cost or revalued amount less residual value over the remaining useful lives.

19. Except as disclosed in Note 18 to the accounts, as at 31 March 2020 there were no significant capital commitments contracted for by the Group.

20. We are not aware of events or changes in circumstances occurring during the period which indicate that the carrying amount of fixed assets or goodwill may not be recoverable.

21. We confirm that:

- all retirement benefits and schemes, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;
- all settlements and curtailments have been identified and properly accounted for;
- all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
- the actuarial assumptions underlying the valuation of the scheme liabilities (including the discount rate used) accord with the directors' best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business;
- the future salary increase assumption is reasonable and in line with our intentions;
- the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and
- the amounts included in the financial statements derived from the work of the actuary are appropriate.

22. We confirm that all of the disclosures within the Narrative Report and Annual Governance Statement and Addendum to the Annual Governance Statement, and in the remuneration disclosures within the financial statements, have been prepared in accordance with the relevant legislation and guidance.

Information provided

23. We have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- additional information that you have requested from us for the purpose of the audit; and;
- unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

24. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.

25. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error and we believe we have appropriately fulfilled those responsibilities.

26. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

27. We are not aware of any fraud or suspected fraud that affects the Council or Group and involves:

    (i) management;

    (ii) employees who have significant roles in internal control; or

    (iii) others where the fraud could have a material effect on the financial statements.

28. We confirm that:

    (i) we consider that the G*roup* has appropriate processes to prevent and identify any cyber breaches other than those that are clearly inconsequential; and

    (ii) we have disclosed to you all cyber breaches of which we are aware that have resulted in more than inconsequential unauthorised access of data, applications, services, networks and/or devices.

29. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

30. We have disclosed to you all known instances of non-compliance, or suspected non-compliance, with laws, regulations, and contractual agreements whose effects should be considered when preparing financial statements

31. We have disclosed to you the identity of the Group's related parties and all the related party relationships and transactions of which we are aware.

32. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the applicable financial reporting framework. No other claims in

connection with litigation have been or are expected to be received.

33. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed on behalf of Eastbourne Borough Council

Appendix 1

Schedule of Uncorrected Misstatements

Description	Assets DR / (CR) £	Liabilities DR / (CR) £	Equity DR / (CR) £	Income Statement DR / (CR) £
Housing Rent arears debtor balance not linked to specific individual invoices	(135,000)			135,000
Capitalisation of rental reductions on leaseholders	(200,000)			200,000

Disclosure deficiencies:

#	Disclosure title	Description of the deficiency and explanation of why not adjusted	Amount (if applicable)
	None		

22

APPENDIX C - Deloitte report made to Audit and Governance Nov 2022

Deloitte.

EASTBOURNE Borough Council www.eastbourne.gov.uk

Eastbourne Borough Council

Report to the Audit & Governance Committee on the audit for the year ended 31 March 2020

Issued for the meeting on 23 November 2022

Deloitte Confidential: Government and Public Services

Contents

Introduction

The key messages in this report

This report sets out the status of the 2019/20 audit of Eastbourne Borough Council (the Council). The scope of our audit was set out within our planning report which was presented to the Audit and Governance Committee.

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

Status of the audit	The audit is at an advanced stage. The principal outstanding areas for completion include: • review of the updated statement of accounts which reflects the agreed adjustments from issues noted during the audit, including arithmetic checks and tie through of amounts reflected on the updated statement of accounts; • completion of work on ICE financial instrument valuations (dependent on receipt of support for fair values), and equity accounting (dependent on receipt of evidence for underlying property valuation in IIL); • completion of working through support received for sundry open areas of testing and any follow-up queries arising; • completion of quality assurance review procedures, including on the updated statement of accounts; • receipt of signed management representation letter; and • update of our review of subsequent events through to signing.
Conclusions from our testing	We have included in this paper our conclusions from testing of key areas of the financial statements. Management have made adjustments to the financial statements during the course of the audit, including: • Posting of ICE accounting entries and group accounting; • Adjustments of omitted disclosure notes within the financial statements; and • Adjustments to the draft accounts to take into account the audited 18/19 comparatives. The details of uncorrected misstatements are set out on page 25 of the report. Subject to resolution of the matters noted above, we envisage issuing an unmodified audit opinion, with no reference to any matters in respect of the Council’s arrangements to secure economy, efficiency and effectiveness in the use of resources, or the Annual Governance Statement. We have considered the impact of the Covid-19 pandemic on our work and an emphasis of matter paragraph will be included in our opinion due to the material uncertainty over property valuations and related balances at 31 March 2020. We have further identified a number of internal control recommendations set out in this report and shared with management.

Introduction
The key messages in this report (continued)

Status of the audit – Value for Money ("VFM")	• Our review of the Council's arrangements has concluded that in the year to 31 March 2020, there are no material matters which we need to report in our Auditor's report on the financial statements with respect to the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources ("value for money"). • As noted on page 19, the Council has a relatively low level of General Fund reserves, increasing the risks to financial sustainability, particularly in the context of the pressures from Covid-19 on income and expenditure going forward. • The Council's arrangements in this context were reviewed by CIPFA on behalf of the Department of Levelling Up, Housing and Communities, which reported in December 2021. We note the importance of on-going focus on the actions from this review to the Council's on-going value for money arrangements.
Narrative Report and Annual Governance Statement	Under International Standard on Auditing (ISA) (UK) 720A (revised), the Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements, we are required to review the content of the Narrative Report and the Annual Governance Statement to identify material inconsistencies (if any) with the statements that they accompany. We are not required to give an opinion on the Narrative Report and Annual Governance Statement (and as such they are not considered 'audited' statements). We are, however, required to read the Narrative Report and Annual Governance Statement to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by the auditor in the course of performing the audit. We performed a review of the Narrative Report, and recommended changes including expanding discussion of Covid-19 impacts and addressing inconsistencies with values in the Statement of Accounts, which management have agreed to correct. Following receipt of the updated Statement of Account, we are reviewing the updated narrative reporting for consistency with the financial statements and other information known to us from our audit work. We have assessed and concluded that the information given in the Annual Governance Statement meets the disclosure requirements set out in CIPFA guidance and is consistent with other information from our audit.
Duties as public auditor	We did not receive any formal queries or objections from local electors this year. We have not identified any matters that would require us to issue a public interest report. We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.

Our audit explained

We tailor our audit to your organisation

Identify changes in your business and environment
In our planning report we identified the key changes in your business and how these impacted our audit approach. We further assessed the impact of Covid-19 which impacted the last month within the 2019/20 period and the wider impact on the Council's operating environment.

Scoping
There have been no changes to the scope of our work which is carried out in accordance with the Code of Audit Practice and supporting auditor guidance notes issued by the NAO. The Council is the only significant component for the group audit.

Other findings
As well as our conclusions on the significant risks we are required to report to you our observations on the internal control environment as well as any other findings from the audit. We report our audit findings from page 16.

- Identify changes in your business and environment
- Determine materiality
- Scoping
- Significant risk assessment
- Conclude on significant risk areas
- Other findings
- Our audit report

Determine materiality
At planning, we set our materiality at £2.2m based on 2% of gross expenditure for group and £2.0m for council materiality, based draft final statements.

We report to you in this paper all misstatements above £113k for group (£100k for council).

Significant risk assessment
In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement. We report our observations on these risks arising from our work carried out to date on these risks in this report. No additional financial statement risks have been identified since our Audit Plan.

We report our findings and conclusions on these risks in this report

Conclude on significant risk areas
We draw to the Committee's attention our conclusions on the significant audit risks. In particular the Committee must satisfy themselves that management's judgements in relation to going concern are appropriate.

Our audit report
Based on the current status of our audit work, we envisage including an "emphasis of matter" in our audit report, drawing attention to the material uncertainty over property valuations at 31 March 2020, and an unmodified value for money conclusion.

Significant risks

Cut off and completeness of expenditure via accruals and provisions

Risk identified

Under UK auditing standards, there is a presumed risk in respect of revenue recognition due to fraud We have rebutted this risk, and instead believe that the fraud risk lies with the completeness of expenditure, in particular the completes of trade payables, accruals and provisions.

For 2019/20 the Council approved a budget with a net cost of service of £16.6m. Given the Council's current budget position and the pressures across the whole of the public sector, there is an inherent risk that the year end position could be manipulated by omitting or misstating accruals and provisions There is also a heightened risk of costs being omitted due to changes and delays in processes around year end at the council and in suppliers in response to changed working arrangements.

Deloitte response

We obtained an understanding of the design and implementation of the key controls in place in relation to recording completeness of accruals and provisions.

We performed focused testing in relation to the completeness of expenditure including a detailed review of accruals and provisions.

As part of this focused testing challenged any assumptions made in relation to year-end accruals and provisions.

We reviewed the year on year movement in accruals and provisions and investigated significant movements.

We tested an enhanced sample of expenditure for late cut-off at year end.

Deloitte view

Our testing did not identify any issues in these areas.

Significant risks

Valuation of property assets

Risk identified

The Council is required to hold property assets within Property, Plant and Equipment and Investment Properties at valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value.

Key judgements and our challenge of them

The Council held £291.7m of property assets at 31 March 2020, an increase of £15.9m, made up of £8.2m revaluation gains and £4.8m of additions, offset by depreciation of £6.9m and disposals of £5.6m. Investment properties increased from £25.7m to £27.3m, of which £1.3m was valuation gains and the remainder additions.

All properties were subject to a full revaluation exercise in the year as part of the council's approach to the valuations.

Deloitte response

- We tested the design and implementation of key controls in place around the property valuation, including how the Council ensures that there are no material impairments or changes in value for the assets not covered by the annual valuation.
- We obtained an understanding of the approach adopted to the valuation, including assessing the valuer's qualifications, objectivity and independence and reviewing the methodology used.
- We performed our testing on the valuation estimates and assumptions used by using our property valuation specialists, Deloitte Real Estate and taking into account the RICs guidance.
- We tested a sample of inputs used in the valuation process, and our testing in this area is on-going. We have not identified issues to report from our sample to date.
- We tested a sample of revalued assets and reperformed the calculation of the movement to be recorded in the financial statements to check that it was correctly recorded.

Deloitte view

Our work on this matter is complete with the key matter being the material estimation uncertainty due to COVID-19. This is a common feature of 2019/20 audit across all Councils where properties are held on the revaluation basis due to the volatility of markets caused by the COVID-19 pandemic, and we will make reference to this in an Emphasis of Matter in our opinion.

We further noted that for the valuation process we were not able to identify a documented internal control relating to the review by officers of the valuation report received from Wilks Head Eve. In addition, we identified a number of instances where we consider that the valuers did not follow best practice in their approach, typically through an overly simplified approach, and where improvements could be made for future valuations as noted on page 18 of the report. These matters were noted to the valuer during the review process.

Significant risks (continued)

Valuation of property assets – Material Uncertainty due to Covid-19

Material Uncertainty due to Covid-19

The Council's valuer has included disclosures in relation to a Material Uncertainty due to Covid-19 in their report including the extracts below:

As at the time of preparing this commentary the outbreak of COVID 19, declared by the World Health Organisation as a "Global Pandemic" on the 11th of March 2020, has and continues to impact many aspects of daily life and the global economy with some real estate markets having experienced lower levels of transactional activity and liquidity.

The pandemic and the measures taken to tackle COVID 19 continue to affect economies and real estate markets globally.

Our commentary of these assets is therefore reported as being subject to 'material valuation uncertainty' asset out in VPS 3 and VPGA 10 of the RICS Valuation Global Standards. Consequently, in respect of any outlined movements less certainty and a higher degree of caution should be attached to our valuation than would normally be the case.

This was a common feature of valuation reports prepared to 31 March 2020.

Impact on Statement of Accounts

We have requested the Council disclosure of the material uncertainty within the Statement of Accounts, and understand will be included in the updated Statement of Accounts. An example disclosure used by other bodies is:

"The outbreak of COVID-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value.
There is an unprecedented set of circumstances on which to base a judgement. Valuations are therefore reported on the basis of 'material valuation uncertainty' as per the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to the valuation. At the current time, it is not possible to accurately predict the longevity and severity of the impact of COVID-19 on the economy. Therefore, values have been based on the situation prior to COVID-19, on the assumption that values will be restored when the real estate market becomes more fluid."

In the context of the Council's joint venture interest in IIL, we would expect this to also make reference to uncertainties over property valuations impacting the equity accounting for the Council's interest.

Impact on the audit opinion

An "emphasis of matter" paragraph is required to be included in our audit opinion to draw attention to management's disclosure:

Emphasis of matter - material uncertainty related to property valuation
We draw attention to note 18, which describes the effects of the uncertainties created by the coronavirus (COVID-19) pandemic on the valuation of the Council's property portfolio, including Investment properties (note 20) and Assets in Property, Plant and Equipment (note 18), and the Council's joint venture interest in Infrastructure Investments Leicester Limited.

As noted by the Council's external valuer, the pandemic has caused extensive disruptions to businesses and economic activities and the uncertainties created have increased the estimation uncertainty over the valuation of the property portfolio at the balance sheet date. Our opinion is not modified in respect of this matter.

Significant risks

Management override of controls

Risk identified

In accordance with ISA 240 (UK) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions.

Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- The Council's results throughout the year showed a surplus of income over expenditure.
- Senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Significant and unusual transactions

See separate risk in relation to ICE. There were no other significant or unusual transactions in the period.

Journals

We have performed design and implementation testing of the controls in place for journal approval. Consistent with the findings of Internal Audit, we identified control recommendations over journal approvals.

We have used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

Our work on the testing of the appropriateness of journal entries recorded in the general ledger is in progress. We will further test the appropriateness of other adjustments made in the preparation of financial reporting based on the adjusted statement of accounts.

Accounting estimates

We have performed design and implementation testing of the controls over the accounting estimate of valuation of Council's estate.

We performed an assessment of assumptions utilised on estimates for pension liability in combination with the work performed by our audit expert.

The key judgements in the financial statements are those selected as significant audit risks and other areas of audit interest: valuation of the Council's estate, the pension liability, and accounting for ICE, as discussed elsewhere in this report.

We reviewed accounting estimates for biases that could result in material misstatements due to fraud.

Deloitte view

We have concluded that management estimates with regards to valuation of the Council's estate and the Pension liability were appropriate and no instances of bias were identified. We are in the process of performing our work the estimates of fair value used in ICE accounting.

We will conclude on the overall risk following completion of the remaining items in our journal selection, but have not identified any matters to report to date.

Other matters

Defined benefits pension scheme

Background

The Council participates in the East Sussex Local Government Pension Scheme, administered by East Sussex County Council.

The net pension liability has decreased from £56.2m at 31 March 2019 to £49.9m at 31 March 2020 primarily as a result of asset value movements, offset by a slight decrease in the discount rates, and an increase in inflation assumption.

The Council’s pension liability is affected by the McCloud legal cases in respect of potential discrimination in the implementation of transitional protections following changes in public sector pension schemes in 2015.

Deloitte response

- We obtained a copy of the actuarial report produced by Hymans Robertson LLP, the scheme actuary, and agreed in the disclosures to notes in the accounts.
- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.
- We reviewed and challenged the assumptions made by Hymans Robertson, including benchmarking as shown the table opposite.
- We have reviewed and challenged the calculation of the impact of the McCloud case on pension liabilities.
- We reviewed the disclosures within the accounts against the Code.
- We received assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.
- We tested the movements in pension asset values from 31 March 2019 to 31 March 2020 via substantive analytic procedures. The total asset values are consistent with our expectation.

Deloitte view

We have reviewed the assumptions and, on the whole, the set of assumptions is reasonable and lies towards the middle of the range of assumptions when compared with the Deloitte benchmarks. The assumptions have been set in accordance with generally accepted actuarial principles and are compliant with the accounting standard requirements of IAS19.

The Pension Fund auditors have noted a material estimation uncertainty with regards to the Pension fund assets as at March 2020 which is consistent across Councils due to uncertainty caused by COVID-19. In the context of the Council’s accounts, and the inherent estimation in pension valuations, the share of pension assets that are held in property are at a level where the Council and Deloitte do not consider to represent a material uncertainty to the Council’s accounts, and therefore no reference is included in our audit opinion.

We have not identified any other significant matters.

Other matters

Group Accounts

Audit considerations regarding the Group Accounts

We have not been appointed the auditor of the material subsidiary companies within the group. In order to gain sufficient assurance over significant account balances in the group accounts, we have performed further audit procedures based on a group risk assessment. The key components are indicated below with a summary of audit procedures performed to ensure that the amounts consolidated are accurate and no material misstatement has occurred due to the consolidation process and elimination.

We will test the final consolidation and eliminations/consolidation adjustments prepared after posting of the remaining required adjustments.

Group Materiality

Materiality for the group is £2.27m with the Council stand alone materiality level set at £2m.

Components	Expenditure 2019/20 £m	Net Assets 31/3/20 £m	%age of total Group Expenditure	%age of group Net Assets	Summary of work to be performed
Eastbourne Borough Council	150.9	202.5	93.34%	98.41%	The Deloitte group audit team has performed full-scope audit procedures under the Code on this component. Matters arising are noted throughout this report
Eastbourne Homes Limited (incl South East Independent Living Limited)	8.1	0.4	5%	<1%	EBC holds all the Share Capital (full voting, dividend and capital distribution rights). We have considered and concluded that the component is immaterial for Group accounting and we have performed analytic procedures at a group level.
Eastbourne Housing Investment Company Limited	1.1	1.4	<1%	<1%	EHIC holds £22.47m of investment property (other items are primarily intercompany which eliminate). The valuation of the investment property was therefore in scope for our group audit, and audited by the group team. We have performed analytic procedures at the group level.
Investment Company Eastbourne Limited	The transactions in ICE are captured under the recording and accounting of the Eastbourne Borough Council and thus no separate consolidation process is required, and hence we have tested these at Council Level in line with the same procedures and code on the EBC component.				
Infrastructure Investments Leicester (IIL) Ltd	1.2	4.1	<1%	2%	IIL is accounted for as a Joint Venture under the equity method. We have tested the group accounting for the joint venture, and have performed analytic procedures at the group level. Our work on the valuation of the investment property in IIL is ongoing as noted below.
Aspiration Homes LLP	0.3 (income 1.7)	1.3	<1%	<1%	This component is not significant. We have performed analytic procedures at the group level.

Accounting for the ICE transaction arrangements

Risk identified
In the 2018/19 audit we noted that the Council (through its subsidiary, ICE), agreed to provide certain guarantees with respect to a loan taken out in relation to a property investment in Leicester. This property is owned and operated by a third party.

The guarantee is two-fold, in that ICE (and the council) are guaranteeing the repayments of the bank borrowings by the third party, and also a certain level of rental income through the property.

The Council also purchased a related option to buy up to 49% of the share capital of the property company for £1 at any time, and gains the rights to 100% of the share capital should there be an event of default.

This is a complex arrangement, and the financial statement risks include the potential for the subsequent accounting treatment to be incorrect in the 2019/20 financial statements

Area	On-going accounting
Investment in IIL	Under equity accounting, the Council's share of profit and losses is included in CIES in the group accounts.
Rental guarantee	Treated as a non-financial guarantee under IFRS 9. Income is recognised over the life of the guarantee, with the carrying value re-measured each year to fair value (with movements in the CIES). The net movement for 2019/20 is an expense of £3.3m (due to reduction in discount rate in valuing the guarantee).
Loan interest guarantee	This is a financial guarantee, recognised at higher of amortised value and any determined loss allowance. Income is recognised on amortisation of the loan, adjusted for loss allowances. The net movement for 2019/20 is an expense of £50k.
Contract receivable	The debtor receivable (Guarantee Fee and Sales Proceeds) is held at Fair Value through Profit & Loss, with movements recognised in the CIES.). The balance is discounted and so increases as the discounting unwinds, but also reflects assumptions on the amounts receivable over time. The debtor is discounted and unwound over the life of the 30-year agreement, with interest income from the unwinding of the discount recognised in the CIES. The income on the unwinding of the debtor (including from change in discount rate assumption) is £2.9m for 2019/20.

Deloitte response

- Our approach to testing and challenge of the judgements in accounting for the arrangement has included:
  - challenging management's valuation of the various elements of the financial instruments, including in particular the impact of COVID-19 on assumptions, discount rates, and the assessment of fair value movements on the loan;
  - requesting evidence supporting the valuation of the investment property in IIL (which is the principal judgement in that entity, with the Council's share of valuation movements impacting the gain/loss recognised for the year). Our valuation specialists will review the judgement that there were no fair value movements in the year, despite the uncertainties in the property market; and
  - sensitivity analyses of key assumptions, in order to challenge the robustness of the model, and to focus our testing on the key judgements.

We have requested supporting evidence to enable completion of our work over:

- The fair value of the loan guarantee and rental guarantee (which currently reflect changes in discount rates but not other fair value considerations); and .
- The valuation of St George's Tower (the investment property in IIL), including how this has considered the impact of COVID-19 on value of property and the rental income.

Our work on ICE-related balances is subject to receipt and review of these items.

Other matters

Infrastructure assets

Background

During the course of our audit, a number of related issues around infrastructure assets have been noted nationally, and have been the subject of extensive discussions led by CIPFA and DLUHC to seek a solution to the issues identified.

The CIPFA Code envisages that councils will adopt a componentised approach to infrastructure assets, and for example, when road resurfacing occurs will be able to derecognise the existing surface component and recognise a replacement component.

In practice, councils typically do not componentise infrastructure assets in this way, do not hold information sufficient to readily do so, and so do not record disposals of infrastructure assets.

At a minimum, this means that there will be some level of overstatement of the gross cost and accumulated depreciation for users. However, even if this is quantitatively material, overstatement of this disclosure (which has no net impact on the financial statements) does not affect the users of the financial statements or their decision making, and both the initial CIPFA consultation on changes to the Code and proposals from DLUHC would remove disclosure of these gross values as not relevant to users.

There is also a risk that councils are not applying appropriate useful economic lives to infrastructure assets (and may not have adequate records to enable them to adjust their accounting). In some cases, councils appear to have adopted unrealistically long asset lives. More widely, where councils are not componentising assets, this requires an appropriate overall asset life to be applied so that effectively shorter lived elements of assets are fully depreciated before replacement and longer lived elements of assets are less depreciated as part of an overall blended useful economic life.

DLUHC are planning to issue a Statutory Instrument and CIPFA accompanying guidance which allow Councils to omit disclosure of the gross book value of infrastructure assets, and to elect to make no adjustments in respect of the carrying value of infrastructure assets when replacing or repairing elements of assets.

Application to Eastbourne

The Council has £15.6m of infrastructure assets, with a gross book value of £34.3m and accumulated depreciation of £18.7m. Of these assets, the most material element are sea defences, with a net book value of £14m. The sea defences have been depreciated over a 40 year asset life.

We requested management to provide support for the asset lives being used, which they are benchmarking against comparable assets.

The Council has historically had limited additions to assets, reducing the risk around infrastructure assets compared to councils with major road assets.

In response to the wider challenges on infrastructure assets, we considered the approach adopted, and noted that although there is scope for improvement in the asset register, Eastbourne has relatively disaggregated information in its fixed asset register, enabling it to review its accounting. There remains a potential impact of repairs and replacements to the gross cost and accumulated depreciation of infrastructure assets, with some risk of overstatement of the net asset position. We recommend in line with other councils with open years of account that the Council use the statutory override when the Statutory Instrument is issued, meaning that only the net book value of infrastructure assets is disclosed, and no disposals are required to be recorded.

Status of our work and findings

We are reviewing management's assessment of asset lives. Following adoption of the statutory override and updated CIPFA guidance, there will be no residual misstatement risk or disclosure deficiency in relation to infrastructure. The Council will then need to consider national guidance on improving infrastructure asset record keeping as and when a longer term approach is proposed nationally.

Conclusion on arrangements to secure economy, efficiency and effectiveness from the Council's use of resources

Background

Under the National Audit Office's Code of Audit Practice, we are required to report whether, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Code and supporting Auditor Guidance Notes require us to perform a risk assessment to identify any risks that have the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. We are required to carry out further work where we identify a significant risk - if we do not identify any significant risks, there is no requirement to carry out further work.

Our risk assessment

We set out the risk assessment procedures we had performed and our further planned procedures in our audit planning report including discussion with relevant officers and review of Council documentation including internal audit reports. We did not identify any further significant risks from our risk assessment procedures. Our main focus area was:

- **Council transformation programme:** As at 31 March 2020, the Council had a number of transformational projects which include retail park redevelopments. The Council further had significant number of capital developments in the Council's plan which required material investment. Our review of the Council's arrangements in respect of monitoring these schemes and mitigating associated risks did not give rise to a significant risk to our conclusion.

Deloitte response

- Obtained an understanding of the progress of the Council's transformation programmes and the related considerations to achieve value for money.
- Performed high level interviews with senior operational staff on the Council's capital developments.
- Reviewed the Authority's Annual Governance statement, Council paper and minutes of meetings and considered the Council's financial results.

Deloitte view

On the basis of our work, having regard to the guidance issued by the Auditor General in April 2020, we are satisfied that, in all significant respects, Eastbourne Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Other significant findings

Internal control and risk management

During our audit we have identified several internal control and risk management findings, initially raised in draft with management in November 2022, which we have included below for information.

Area	Observation	Priority
Quality of draft financial statements	During the 2018/19 audit we identified a high priority finding on the quality of draft financial statements. Our review of the 2019/20 accounts and accounts preparation progress shows progress in a number of areas. However, there remain issues which have not yet been addressed. The following matters remain key and need improvements: • The initial draft only included EBC figures and omitted the Group consolidated primary statements and notes. • Inconsistencies between notes and primary statements. • Insufficient documentation of disclosure notes. • Differences noted during our call and cast process. There is an inherent lag in the implementation of responses to this type of issue, reflecting the time needed for changes to be made. We note that from late 2019/20 the Council had recruited to strengthen the finance team going forward, and that there is a lag from the initial production of FY20 accounts to the impact of changes in processes which will only impact future years (such as the introduction of an accounts model with inbuilt control checks, training for staff, and additional review controls). Areas to keep in view through these changes for improvement include: • preparation of a skeleton draft of the financial statements ahead of year-end, reviewed against the Code for any changes in the year and for the disclosure requirements for any new or changed activities of the Council • maintenance of clear audit trail of accounts mapping and documented rational of adjustments in accounts preparation • documentation and quantification of judgments in respect of materiality of disclosure requirements in preparing the accounts • documented and reviewed use of CIPFA disclosure checklists • documented and reviewed internal checks of arithmetic accuracy and internal consistency • documented and reviewed internal tie back and referencing of the draft financial statements to supporting working papers.	

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

Low Priority

Medium Priority

High Priority

Other significant findings

Internal control and risk management

Area	Observation	Priority
Preparation for IFRS 16	The implementation of IFRS 16, Leases, is expected to have a greater and more complex impact upon most Councils than the implementation of IFRS 9 and IFRS 15 in 2018/19. The scope and potential complexity of work required, which may require system or process changes to underpin correct accounting under the standard, will require work to be completed at a significantly earlier to allow for financial reporting timetables to be met. As a result of Covid-19, and wider issues in local government reporting, the implementation of IFRS 16 has been delayed to 2024/25 (with the option to adopt from 2022/23 onwards). Whilst this point remains open and will need Council attention in due course, this does not impact the 2019/20 financial statements and the related disclosure covering IFRS standards issued but not yet implemented can be reported in the same manner as 2018/19. Management have informed us preparations are being made for the introduction of this standard but this work has not been reviewed by audit. We recommend early consideration following the impact analysis of actions required to embed IFRS 16 accounting in the Council's underlying accounting systems.	
Journal authorisation	There is no control in place within Civica (the accounting system used) which prevents a user from posting a journal with has not been authorised. Only finance staff are able to post journals and are given instructions to seek approval for journals which are posted for amounts greater than £100k. We note that this is dependent on the journal preparer communicating this to the senior accountant (i.e. they are still able to post journals without authorisation). Higher level reviews provide a mitigating control, however embedding the authorisation policy would improve the control environment. (We note that Internal Audit have raised related control findings in their Main Accounts System review).	

Other significant findings

Internal control and risk management

Area	Observation	Priority
Valuation of properties	The valuation of properties is dependent on input from officers in forming assumptions including the location and functional obsolescence of the existing properties and information provided by officers, including the number, type and condition of council dwellings and the floor areas of the different buildings. A paper was not prepared which set out the key assumptions, and officer's view on whether the revaluation assumptions are appropriate. We were also not able to identify a documented internal control relating to the review by officers of the valuation report received from Wilks Head Eve. We recommend that a paper should be prepared and set out the review of key assumptions, and officer's view on why the revaluation assumptions are appropriate.	
Improvements to the valuation exercise	Whilst overall we have concluded that the properties held at revalued amounts are not materially misstated, several insights and improvements for the future have been identified. We have fed back a detailed list to management and include a summary of the more significant items below: • The impact of the age and obsolescence on specific asset valuations reflects a feature of the Wilks Head and Eve valuation model where no age and obsolescence deduction is made for the first 5 years of the term (the property was constructed and opened in 2009). This can lead to a sudden reduction when this is added. It is recommended that age and obsolescence is applied from year 1 to avoid this; • It is recommended that the valuer consider adopting a market standard net yield approach as this would assist with accuracy and transparency of the valuations; • It is recommended that for future valuations that the valuers include these costs explicitly with specific reference to the level and nature of external works associated with specific properties. This would add accuracy and transparency to the valuations; • The narrative in the valuation report should specifically address the circumstances of the valuation (e.g. that Eastbourne value all of their assets every four years) rather than general descriptions to ensure clarity; • It is considered best practice for the valuer to confirm the accuracy of assumptions on when they undertake inspections and research around specific properties; • The valuer does not explicitly include costs for external works or preliminary works and it is recommended that these are reflected explicitly in future valuations; • To ensure that the valuation of the actual asset is prepared on a comparable basis to the transactional evidence the valuer should deduct Stamp Duty Land Tax (SDLT) costs, agents and legal fees (purchaser’s costs). The impact of not deducting these costs varies as SDLT is a progressive tax and is calculated on the gross value.	

Other significant findings

Internal control and risk management

Area	Observation	Priority
Management assessment of estimates - Accounting Papers Not Prepared, Reviewed and Challenged for each area of Accounting Estimate	Accounting papers were not prepared to explain and support key judgements and estimates as part of accounts preparation (including the ongoing pertinence of judgements made in previous years). These would include consideration of the relevant requirements of the accounting standards and the Code, the fact pattern (including details of relevant terms of contracts), an assessment of how the standards apply in this context, consideration of potential alternative treatments, the proposed approach to measurement/calculation of accounting entries required, and the required disclosures. In determination of ICE Balances, Pensions and PPE Valuation there is a high level of complexity and estimation uncertainty, thus increasing the risk and opportunity for management bias or fraud. Following an audit request, management have prepared a paper on the ICE valuation and accounting.. We recommend formalising an approach for future years of: • preparing papers for any key accounting judgements or issues arising. • presenting accounting papers are presented to the same meeting of the Panel at which the draft statement of accounts are approved (if not earlier) for scrutiny and to inform the panel’s approval of the draft statement of accounts.	●

Financial sustainability

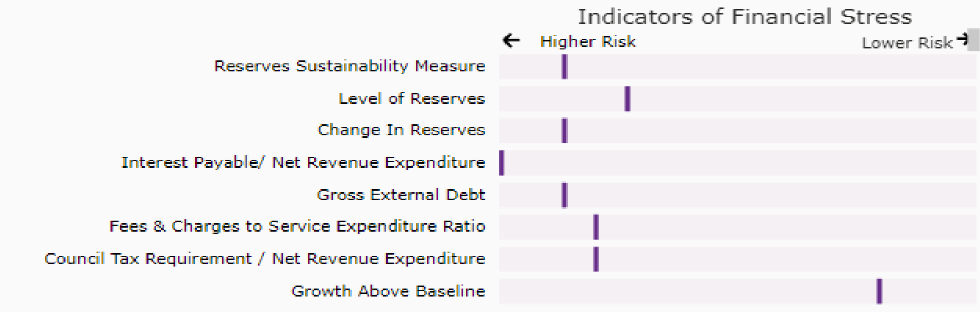
COVID-19's impact on financial sustainability

Due to the timing of the COVID 19 pandemic, for 2019/20, there was limited impact on the Council's income and expenditure for the financial year. However, as the committee will be well aware, the pandemic has had a significant and on-going impact on the Council's operations and performance in subsequent periods. Although the government has allocated emergency funding to local authorities, allowed the impact of tax shortfalls to be spread, and in some cases, as with the Council, issued capitalisation directions to address immediate pressures (effectively increasing the Council's reserves position), the on-going pressures from the pandemic and the cost of living crisis will present a challenge for the Council and will likely be an area which we need to focus upon in our value for money work for future periods.

Eastbourne's position

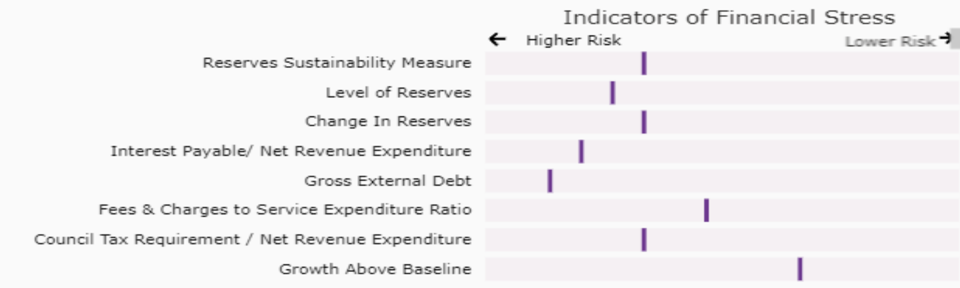
For the 2019/20 year, when compared to comparable authorities in the CIPFA Financial Resilience Index, Eastbourne was considered to be relatively higher risk in relation to the level of financial reserves. (We note that management are discussing with CIPFA some of the figures used in their index, as this reflects a snapshot position). The current forecast position for 31 March 2023 in the Council's draft Medium Term Financial Plan is a general fund position of £3.2m, and earmarked reserves of £7.5m, following the support received in 2020/21 and 2021/22.

2019-20 Financial Resilience Index



Indicator	Min	Indicator Value	Max
Reserves Sustainability Measure	3.83	7.19	100.00
Level of Reserves	10.98%	39.99%	249.26%
Change In Reserves	-43.90%	-29.44%	73.22%
Interest Payable/ Net Revenue Expenditure	0.02%	24.96%	24.96%
Gross External Debt	£3,355k	£162,164k	£217,833k
Fees & Charges to Service Expenditure Ratio	3.74%	18.66%	45.26%
Council Tax Requirement / Net Revenue Expenditure	45.99%	55.68%	75.49%
Growth Above Baseline	10.00%	28.00%	113.00%

2020-21 Financial Resilience Index



Indicator	Min	Indicator Value	Max
Reserves Sustainability Measure	2.50	100.00	100.00
Level of Reserves	29.65%	94.91%	300.00%
Change In Reserves	-54.51%	70.07%	440.14%
Interest Payable/ Net Revenue Expenditure	0.38%	18.77%	58.60%
Gross External Debt	£3,258k	£159,450k	£207,223k
Fees & Charges to Service Expenditure Ratio	2.29%	19.81%	35.84%
Council Tax Requirement / Net Revenue Expenditure	24.25%	48.28%	100.00%
Growth Above Baseline	-6.61%	40.02%	113.53%

Financial sustainability

COVID-19's impact on financial sustainability

Eastbourne's position (continued)

During the year to 31 March 2020, the draft 2019/20 financial statements show a net £2.4m reduction in the General Fund (including a £1.2m transfer to Earmarked Reserves).

Based on the review of the Financial Resilience index tables we noted there is an improvement for 2020/21 on the reserves sustainability thus we did not identify a significant risk. The pandemic has affected 2020/21 budgets, and the Council has considered various updates during the year to date, including actions that can be taken to mitigate the impact on the Council's income and costs. The Council was already in a relatively weak financial position, and COVID-19 and the current macroeconomic environment presents additional significant financial challenges in 2020/21 and beyond. The Council's response will be an area we focus upon in our value for money work going forward and which we would expect to comment upon in our narrative commentary in the Auditor's Annual Report.

Based on our review of the Narrative report the Council has disclosed the impact of COVID-19 on the service provision, changes to workforce and impact on the going concern and reserves. We have regarded this to be satisfactory.

Your annual report

We are required to report by exception on any issues identified in respect of the Annual Governance Statement.

	Requirement	Deloitte response
Narrative Report	The Narrative Report is expected to address (as relevant to the Council): - Organisational overview and external environment; - Governance; - Operational Model; - Risks and opportunities; - Strategy and resource allocation; - Performance; - Outlook; and - Basis of preparation - Future sustainability and risks to this posed by Covid-19.	Under International Standard on Auditing (ISA) (UK) 720A (revised), the Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements, we are required to review the content of the Narrative Report to identify material inconsistencies (if any) with the statements that they accompany. We are not required to give an opinion on the Narrative Report (and as such it is not considered an 'audited' statement). We have assessed whether the information given in the Narrative Report meets the disclosure requirements set out in guidance, is misleading, or is inconsistent with other information from our audit. We fed back some improvements that could be made in various areas of the report to improve drafting and understandability. We also note for 2020/21 CIPFA have issued further guidance on the details that should be included within the Narrative Report in relation to the Covid-19 pandemic. Overall we concluded that the narrative report is presented satisfactorily.
Annual Governance Statement	The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement meets the disclosure requirements set out in CIPFA guidance, is misleading, or is inconsistent with other information from our audit. The initially approved AGS did not discuss governance around the ICE transaction and on-going governance of the relationship with this entity. Given that the approval process of the AGS did not permit the AGS to be amended, addendum has been provided. We reviewed the content of the proposed addendum and we are satisfied the transaction on ICE was properly disclosed in the Accounts. Overall we concluded that the Annual Governance Statement is presented satisfactorily.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit Committee and the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the Narrative Report.

What we don’t report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

The scope of our work

Our observations are developed in the context of our audit of the financial statements. We described the scope of our work in our audit plan and again in this report.

This report has been prepared for the Audit Committee and Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

Deloitte LLP

for and on behalf of Deloitte LLP
21 November 2022

Appendices

Audit adjustments

Unadjusted misstatements

The following uncorrected misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK). Uncorrected misstatements identified to date increase expenditure by £335k and decrease net assets by £335k. We will report to you in writing any additional misstatements identified in the finalisation of our audit.

			Debit/(credit) CIES £000	Debit/(credit) in net assets £000	Debit/(credit) prior year reserves £000	*Memo: Debit/ (credit) Council useable reserves £000*
Misstatements identified in current year						
Housing Rent arears debtor balance not linked to specific individual invoices	Short Term Debtors	[1]	135	(135)		
Capitalisation of rental reductions on leaseholders	Investment Property	[2]	200	(200)		
Misstatements identified in current years that relate to prior year and remain uncorrected.						
None Identified			-	-	-	-
Misstatements identified in prior years that remain uncorrected						
None Identified			-	-	-	-
Total			**335**	**(335)**	-	-

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1. The Housing rent debtor balance includes £135k which is not linked to specific individual debtors. This was due to an error in transition to a new software system, with no breakdown migrated to the new system. Management have not identified evidence supporting recoverability of this amount.
2. Investment property additions include £200k capitalised of rent reductions given to tenants due to refurbishments of the shops and flats. The commercial units are investment properties which are revalued annually and therefore any increases/decreases in value are written out through CIES immediately. The rent reduction did not meet the definition of capitalised costs as per IAS 16/IAS 40.

We have noted various disclosure matters to management, which they intend to correct in the final Statement of Accounts, and therefore are not reported herein.

Fraud responsibilities and representations

Responsibilities explained

Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with officers and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Required representations:

We have asked the Council to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the Council.

We have also asked the Council to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

Audit work performed:

In our planning we identified valuation of land and buildings, completeness of expenditure and accruals and management override of controls as key audit risks for the council.

During course of our audit, we have had discussions with officers and those charged with governance.

In addition, we have reviewed officer’s own documented procedures regarding fraud and error in the financial statements.

We have reviewed the Annual Governance Statement.

Conclusion:

We have no matters to report from our procedures in this regard.

Independence

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and will reconfirm our independence and objectivity to the Audit and Governance Committee for the year ending 31 March 2020.
Independence monitoring	We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We have no other relationships with the Authority, its members, officers and affiliates, and have not supplied any services to other known connected parties.

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