



**Annual Audit Letter on the  
2018/19 External Audit**  
Eastbourne Borough Council

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# 1. Letter to Members

The Members  
Eastbourne Borough Council  
1 Grove Road  
Eastbourne  
BN21 4TW

22 February 2022

Dear Members

We have pleasure in setting out this Annual Audit Letter to summarise the key matters arising from the work that we have carried out in respect of the audit for the year ended 31 March 2019.

Although this letter is addressed to the Members of Eastbourne Borough Council ("the Council"), it is also intended to communicate the significant issues we have identified in an accessible style to key external stakeholders including members of the public.

This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Ltd. This is available from [www.psaa.co.uk](http://www.psaa.co.uk).

This letter has been discussed and agreed with the Chief Finance Officer. A copy of the letter will be provided to all Members.

This is our first year as the external auditor of the Council following the transition to the PSAA contract in 2018/19. The audit was impacted by: significant accounting issues around ICE (Investment Company Eastbourne), the work required by the Council to determine the appropriate accounting treatment for the transactions (which was not completed until after the original audit deadline), audit work on the transaction, and consequent accounting adjustments; prior year adjustments in respect of property accounting; and other issues identified in the quality of the draft financial statements and supporting information for the audit. These led to significant additional audit work being required, with the impact on the timetable further exacerbated by the impact of the Covid-19 pandemic in March 2020. All these factors led to an extension of the timetable for completing the Statement of Accounts. Our audit opinion was signed on 30 September 2021.

Yours faithfully,



Ben Sheriff  
Key Audit Partner  
for and on behalf of Deloitte LLP  
St Albans, United Kingdom

## 2. Key Messages

### Statement of Accounts

#### Unqualified opinion issued on 30 September 2021

In 2018/19 the Authority was required to prepare its Statement of Accounts in accordance with International Financial Reporting Standards ("IFRS") as defined in the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and other relevant legislation.

The first draft of the Statement of Accounts was provided to us in June 2019. However, this draft was incomplete, as it did not include the group financial statements or accounting entries for the ICE transaction. Following initial work on the accounting for the ICE transaction, an adjusted draft of the Statement of Accounts was provided in November 2019. From the completion of audit work, a number of issues were identified requiring adjustment, including in respect of the ICE transaction accounting, the accounting for property balances, and internal consistency errors.

We issued our audit opinion on the financial statements on 30 September 2021. Our opinion was not qualified.

Materiality for the Council's accounts was set at £2.1m.

### Value for Money ("VfM") conclusion

#### Unqualified conclusion issued on 30 September 2021

We are required to base our statutory VfM conclusion on the criteria specified by the National Audit Office. This is an evaluation of whether the Council has in place proper arrangements to ensure properly informed decisions were taken and the Council deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We issued an unqualified VfM conclusion on 30 September 2021. Our ISA 260 report to the Audit Committee in July 2021 included a number of observations in respect of the Council's VfM arrangements, controls and financial position, and we note also the recommendations of the External Assurance Review of the Council carried out by the Chartered Institute of Public Finance Accountants on behalf of the Department for Levelling Up, Housing & Communities, issued in December 2021.

### Audit findings

#### Our Audit Committee reporting included findings from our controls work and recommendations for improvement.

International Standards on Auditing (UK) require us to communicate in writing to those charged with governance the significant findings from our audit. Our report to the July 2021 Audit Committee meeting included our findings on internal control weaknesses and recommendations arising from the 2018/19 audit.

### Independence and Objectivity

#### Independence and objectivity

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 partner and audit staff is not impaired.

## 3. Responsibilities and Scope

### Responsibilities of the Council and Auditors

The Council is responsible for maintaining the control environment and accounting records and preparing the accounting statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 based on IFRS and other relevant legislation.

We are appointed as the Council's independent external auditors by PSAA, the body responsible for appointing auditors to local public bodies in England where they have opted into this programme.

As the Council's appointed external auditor, we are responsible for planning and carrying out an audit that meets the requirements of the National Audit Office's Code of Audit Practice ("the Code"). Under the Code, we have responsibilities in two main areas:

- auditing the Council's accounts; and
- evaluating whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money ("VFM") conclusion).

These responsibilities are set out in greater detail in the Statement of Responsibilities of Auditors and Audited Bodies. This document can be accessed here: <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>.

### The scope of our work

We conducted our audit in accordance with the NAO Code of Audit Practice and the International Standards on Auditing (UK and Ireland) as adopted by the UK Auditing Practices Board ("APB"). The audit opinion on the accounts reflects the financial reporting framework adopted by the Council, being the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 based on IFRS and other relevant legislation.

We conducted our work on the 2018/19 VFM conclusion in line with guidance issued by the National Audit Office in November 2017.

## 4. Audit of the Accounts

Statement of Accounts	
<b>Unqualified opinion issued on 30 September 2020</b>	<p>We issued an unqualified opinion on the Council's 2018/19 accounts on 30 September 2021.</p> <p>Before we give our opinion on the accounts, we are required to report to those charged with governance (here the Audit Committee) any significant matters arising from the audit. To address this requirement, report was issued to the Audit Committee meeting held on 28 July 2021.</p> <p>The content of these papers including significant matters arising from the audit were discussed with the members of the Audit Committee in meetings during the course of the audit. These papers are available to view online as part of the Committee packs for those meetings.</p>
<b>Materiality</b>	<p>We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.</p> <p>Based on our professional judgement, materiality for the Council's accounts was set at £2.1m which equated to 2% of estimated gross expenditure at the planning stage of the audit which is same as that for the consolidated accounts. This benchmark was chosen as the Council is a non-profit organisation and total expenditure is a key measure of financial performance for users of the financial statements.</p> <p>We agreed with the Audit Committee that we would report to the Committee all uncorrected audit differences in excess of £103k, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We would also report to the Audit Committee on any uncorrected disclosure matters identified when assessing the overall presentation of the financial statements. For the avoidance of doubt, these matters were identified and communicated to the audit committee in relation to the audit of the 2018/19 Statement of Accounts in the meeting held in July 2021.</p>
<b>Significant Risks</b>	<p>Our audit work was designed to specifically address the significant audit risks presented in further detail below. These significant audit risks were the areas that were deemed to be those with the greatest potential of being materially incorrect in the financial statements and were therefore areas of greater focus for the audit team.</p> <p>1. <b><u>Accounting for the ICE guarantee valuation contract:</u></b></p> <p>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) guaranteed the repayments of the bank borrowings by the third party, and also a certain level of rental income through the property.</p>

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 accounting treatment to be incorrect. Additionally, we identified a significant Value for Money risk in relation to the governance and informed decision making with regards to this significant and unusual transaction.

- **Deloitte response**

With respect to the value for money risk, we obtained documentation as to the work that Management had performed in order to gain an understanding of the legal form of the arrangements and whether they had appropriate powers to enter into the arrangements. Additional documentation setting out the purpose and risks of the arrangements was obtained.

However, it was clear from these, and from discussion with management that the detailed accounting implications for the Council were not adequately understood (as confirmed by the delays owing to the lack of a finalised accounting treatment) and this reflected in part lack of clarity over the full terms of the agreements and the related risks to the Council.

Following detailed discussions with management, with our own specialists, and with management's experts, we performed the following:

- Concluded on the appropriateness of accounting treatments.
- Involved our own specialists in challenging the treatment of the contract, including accounting for the investment in ICE.
- Challenged management's valuation of the various elements of the financial instruments, including in particular, the treatment of the property valuation, discount rates, and the models used.
- Held discussions with Management's advisors, including Grant Thornton and Arlingclose, in order to fully understand the assumptions and estimates that management had made.
- Considered the nature of the transaction and whether the Council had the vires to make the arrangement.
- Performed sensitivity analyses of key assumptions, in order to challenge the robustness of the model, and to focus our testing on the key judgements.
- Considered any indications that the transaction had been entered into on a basis other than that of arm's length.
- Reviewed the implications of the accounting for the transaction, and the significant challenges that occurred in presenting this in the financial statements, as part of our work on Value for Money.

The final Statement of Accounts reflects adjustments arising from our challenges to the accounting for the transaction.

- **Value for money consideration**

We identified a significant risk to our VFM conclusion in respect of the ICE financial guarantee contract, due to the complexity and size of the transaction. In response:

- We reviewed supporting documentation with regards to the advice taken by the Council prior to entering into the agreement, including legal, property and commercial advice during the due diligence of the transaction, and the internal documentation on the approval of the decisions.
- We discussed the Council's arrangements with senior operational staff including the Chief Executive Officer and Chief Financial Officer.
- We considered the overall financial impact of the agreement, as well as the balance of risks and rewards
- We reviewed Internal Audit's report into the governance of the transaction, which had a "Reasonable Assurance" conclusion, but noted a number of recommendations in respect of transparency around decision making, clarity of consideration of the risks of transactions, consideration of accounting requirements, and record keeping on decision making for complex transactions
- Performed the work to support the financial statement audit

Following review of documentation and interviews with management, as well as review of the report of internal audit on the governance of the transaction, we concluded that it is not necessary to include an exception to our value for money conclusion in respect of this matter. We note that the final contractual structure entered into in 2018 was not the same as that initially consulted on and approved by Council in 2017, and would view it as good practice for a major transaction for the updated transaction structure to have been reported.

2. **Completeness of Expenditure:** We concluded satisfactorily in this area and there are no findings to report.

- **Risk identified**

Under UK auditing standards, there is a presumed risk in respect of revenue recognition due to fraud. We rebutted this risk, and instead identified that the fraud risk lies with the completeness of expenditure and completeness and valuation of accruals.

- **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.

3. **Management override of controls:** We concluded satisfactorily in this area. We did not identify any significant bias in the key judgements made by management based on work performed. Furthermore, we did not identify any



instances of management override of controls in relation to the specific transactions tested based on work performed. There are no other findings to report

- **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.

Additionally, there was a significant, and unusual transaction in the year which was the setting up of the guarantee contract through Investment Company Eastbourne ("ICE"). This is covered as an additional significant risk.

- **Deloitte response**

- **Significant and unusual transactions:** See separate risk in relation to ICE. There were no other significant or unusual transactions in the period.
- **Journals:** We performed design and implementation testing of the controls in place for journal approval.

We 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.

We completed testing of the appropriateness of journal entries recorded in the general ledger. We tested the appropriateness of other adjustments made in the preparation of financial reporting.

- **Accounting estimates:** We performed design and implementation testing of the controls over key accounting estimates and judgements. 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.

4. **Valuation of property assets:** Adjustments were required in respect of

- Treatment of additions between valuations, which had been added to fixed assets at cost without corresponding disposal entries. This was adjusted, with restatement of the comparative figures.
- Assumptions in relation to the valuations of David Lloyd (Broadwater Way), Hampden Retail Park, and the property in IIL. 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. These matters were noted to the valuer during the review process.

	<p>We have gained assurance over these areas and no other issues were noted.</p> <ul style="list-style-type: none"> <li>• <b>Risk identified</b></li> </ul> <p>The Council held £275.8 m of property assets at 31 March 2019, an decrease of £9m, made up of £8.2m revaluation gain, £5.9m of additions, offset by depreciation of £7.1m and disposals of £16.0m. Investment properties increased from £23.9m to £25.7m, of which £1.1m was valuation gains and the remainder additions.</p> <p>All properties were subject to a desktop revaluation exercise in the year as part of the council's approach to the valuations, while the investment properties were fully revalued by management's expert (WHE).</p> <ul style="list-style-type: none"> <li>• <b>Deloitte response</b></li> </ul> <ul style="list-style-type: none"> <li>• Our testing of the valuations of the Council's property assets involved our property valuation specialists, Deloitte Real Estate (DRE) to review and challenge the valuation undertaken, as well as testing where relevant of inputs to the valuation.</li> </ul>
<b>Overall opinion</b>	<p>We issued an unqualified opinion on the Council's 2018/19 accounts on 30 September 2021. Our opinion confirms that the accounts present a true and fair view of the financial position of the Council as at 31 March 2019 and its income and expenditure for the year then ended.</p>
<b>Annual Governance Statement and Other Information</b>	
<b>No issues were identified in relation to this work</b>	<p>As appointed auditors, we review the Annual Governance Statement ("AGS") and other information presented with the financial statements to check that information is consistent with the financial statements. Following our procedures, the Council issued an addendum to the AGS covering the arrangements over the Council's subsidiaries and other investments. We do not have any other findings to report in this area.</p>
<b>Powers and Duties</b>	
<b>We did not receive any questions about the accounts or make any public interest reports</b>	<p>Under the Local Audit and Accountability Act 2014, auditors have specific powers and duties, including to give electors the opportunity to raise questions about the accounts and to consider and decide upon objections received in relation to the accounts. We did not receive any such questions or objections.</p> <p>We have a duty to consider whether to issue a report in the public interest about something we believe the Council should consider, or if the public should know about.</p> <p>We have not identified any matters that would require us to issue a public interest report.</p>

# Value for Money

## Background and approach

We are required to issue a value for money ("VfM") conclusion within our report on the financial statements. We are required to base our VfM conclusion on criteria specified by the National Audit Office ("NAO") where we are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources. Our assessment is based on the following reporting criterion:

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

The following sub-criteria are then used to inform and guide our work and inform our overall judgement although there is no requirement to separate these nor to report against each sub-criteria:

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

We would emphasise that it is the arrangements in place that we are required to assess, and not the actual decisions made by the Council.

We planned our local programme of work based on our risk assessment, which was informed by a series of risk factors determined by the National Audit Office.

We did not identify any significant risks as part of our risk assessment other than the risk relating to ICE guarantee transaction, discussed above. Our reporting to the Audit Committee also included our observations in respect of the Council's reserves and the risks looking forward in respect of financial sustainability.

Although the final report was issued after completion of our audit, we would highlight in respect of the Council's on-going arrangements the External Assurance Review of the Council carried out by the Chartered Institute of Public Finance Accountants on behalf of the Department for Levelling Up, Housing & Communities. The report was issued in December 2021 and provides an assessment of the Council's financial management and management of risk, deliverability of savings plans, efficiency in delivering services under financial pressures and the scope for capital receipts from property sales. The report makes recommendations to the Council, including points that were noted from our recommendations and communicated in our ISA260 report issued in July 2021

## The VfM conclusion

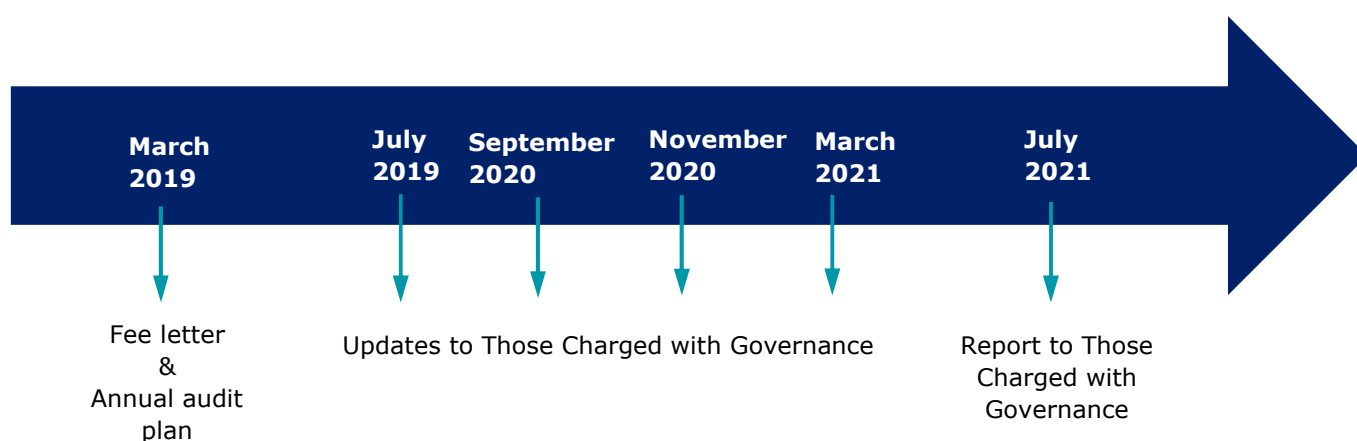
Having performed our work in line with guidance received from the National Audit Office we issued an unqualified value for money conclusion for the 2018/19 financial year.

## 5. Other Matters

### Reports issued

Reports issued during the course of the 2018/19 audit included:

- Audit Fee letter;
- Annual Audit Plan;
- Updates on 2018/19 audit to Those Charged with Governance issued in July 2019, September 2020, November 2020 and March 2021;
- Report to Those Charged with Governance on 2018/19 audit of the Council in July 2021; and
- This Annual Audit Letter.



### Statement of Responsibilities

The Statement of Responsibilities of Auditors and Audited Bodies issued by PSAA explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out in accordance with, that statement.

The matters raised in this report are only those that came to our attention during our audit and are not necessarily a comprehensive statement of all weaknesses that exist or of all improvements that might be made. You should assess recommendations for improvements for their full implications before they are implemented. In particular, we would emphasise that we are not responsible for the adequacy and appropriateness of the national data and methodology supporting our value for money conclusion as they are derived solely from the National Audit Office.

This report has been prepared for the Members, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other party.

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the Annual Audit Letter since first published. These matters are the responsibility of the Council but no control procedures can provide absolute assurance in this area.

# Deloitte.

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