



# EASTBOURNE BOROUGH COUNCIL

## AUDIT COMPLETION REPORT

Audit for the year ended 31 March 2018

3 August 2018

# CONTENTS

WELCOME.....	2	APPENDIX I: AUDIT DIFFERENCES .....	31
OVERVIEW .....	3	APPENDIX II: RECOMMENDATIONS AND ACTION PLAN .....	33
KEY AUDIT AND ACCOUNTING MATTERS .....	6	APPENDIX III: MATERIALITY .....	35
OTHER REPORTING MATTERS.....	21	APPENDIX IV: INDEPENDENCE .....	36
CONTROL ENVIRONMENT .....	22	APPENDIX V: FEES SCHEDULE .....	37
WHOLE OF GOVERNMENT ACCOUNTS.....	23	APPENDIX VI: DRAFT LETTER OF REPRESENTATION.....	38
USE OF RESOURCES .....	24	APPENDIX VII: AUDIT QUALITY .....	42

---

# WELCOME

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

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

We look forward to discussing these matters with you at the Audit and Governance Committee meeting on 25 July 2018, and to receiving your input.

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

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and use of resources. This report has been prepared solely for the use of the Audit and Governance Committee and those charged with governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person.

In communicating with those charged with governance of the Council and the Group, we consider those charged with governance of subsidiary entities to be informed about matters relevant to their entity. Please let us know if this is not appropriate.

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

---

# OVERVIEW

This summary provides an overview of the audit matters that we believe are important to the Audit and Governance Committee in reviewing the results of the audit of the financial statements of the Council and consolidated entities (together the 'Group') and use of resources of the Council for the year ended 31 March 2018.

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

AUDIT SCOPE AND OBJECTIVES	
Audit status	We have completed our audit procedures in accordance with the planned scope. We were not able to complete our audit by the statutory deadline of 31 July 2018. This was primarily due to difficulties experienced in the final stages of the audit in determining whether or not the Council needed to include its interest in Greencoat House Limited (a holding company for Welbeing) in its Group Accounts, which impacted our timely completion of other areas of the audit.
Audit risks update	No additional significant audit risks were identified during the course of our audit procedures subsequent to our Audit Plan to you dated 26 February 2018.
Materiality	Our final materiality is £2.1 million for the Council and £2.2 million for the Group. We have increased our materiality levels by £100,000 for the Council and £200,000 for the Group accounts, compared to the materiality levels reported in our Audit Plan, as a result of an increase in gross expenditure this year.
Changes to audit approach	There were no significant changes to our planned audit approach nor were any restrictions placed on our audit.
Group audit	Our approach as designed to ensure we obtained the required level of assurance across the components of the Group in accordance with ISA (UK) 600 (Audits of Group Financial Statements). To summarise our audit coverage: <ul style="list-style-type: none"> <li>• Total expenditure: &gt;99% full audit, &lt;1% specific procedures</li> <li>• Total assets: &gt;99% full audit, &lt;1% specific procedures.</li> </ul>

# OVERVIEW

## KEY AUDIT AND ACCOUNTING MATTERS

Material misstatements	<p>Our audit identified two material misstatements in the primary financial statements, which management has amended in the final financial statements:</p> <ul style="list-style-type: none"> <li>£13.262 million overstatement of net cost of services income and expenditure as a result of incorrectly accounting for recharges to Lewes District Council under the Joint Transformation Programme on a gross basis instead of on a net basis as appropriate for a joint operation</li> <li>£3.904 million overstatement of council dwellings due to incorrect indexation applied at 31 March 2018, as the market did not move in the way that the valuer forecast prior to year end.</li> </ul> <p>These adjustments decreased the surplus on provision of services by £3.904 million but did not have any impact on the general fund balance as capital adjustments are reversed out to unusable capital reserves.</p> <p>We also identified material misstatements in the following disclosures, which have been corrected in the final financial statements:</p> <ul style="list-style-type: none"> <li>Capital commitments disclosure</li> <li>Financial instruments disclosure for creditors.</li> </ul>
Unadjusted audit differences	<p>Our audit identified one unadjusted audit difference this year, which when combined with the effect of an uncorrected audit difference from last year that impacts on this year's expenditure, would increase the surplus on provision of services by £462,000, if corrected. This would have no impact on the general fund balance as it is a capital item that would be reversed to capital reserves.</p> <p>In addition, we found that the liquidity risk disclosure in the financial instruments note has not been prepared on an undiscounted cash flows basis as required by accounting standards; the approach taken by the Council is consistent with prior years.</p>
Control environment	<p>Our audit did not identify any significant deficiencies in internal controls.</p>

## KEY MATTERS FROM OUR AUDIT OF USE OF RESOURCES

Sustainable finances	<p>While there is a recognised funding gap in the Medium Term Financial Strategy (MTFS), we are satisfied that the Council has appropriate arrangements to continue to remain financially sustainable over the period of the MTFS. All of the required savings for 2018/19 have been identified.</p>
----------------------	--

# OVERVIEW

AUDIT OPINION	
Financial statements	We anticipate issuing an unmodified opinion on the Council financial statements and the consolidated Group financial statements for the year ended 31 March 2018.
Other information	We propose issuing an unmodified opinion on the consistency of the other information in the Statement of Accounts with the financial statements and our knowledge.
Annual Governance Statement	We have no exceptions to report in relation to the consistency of the Annual Governance Statement with the financial statements or our knowledge.
Use of resources	We anticipate issuing an unmodified opinion on the arrangements in place to secure economy, efficiency and effectiveness in the use of resources for the year ended 31 March 2018.
OTHER MATTERS FOR THE ATTENTION OF THE AUDIT AND GOVERNANCE COMMITTEE	
Whole of Government Accounts (WGA)	The Council is below the audit threshold of £500 million for a full assurance review of the WGA Data Collection Tool.
Audit independence	Our observations on our audit independence and objectivity and related matters are set out in Appendix IV.
Management letter of representation	The draft management letter of representation is set out in Appendix VI.

## KEY AUDIT AND ACCOUNTING MATTERS

### AUDIT RISKS

Below we set out how these risks have been addressed and the outcomes of our procedures.

Key: ■ Significant risk ■ Normal risk

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
1 ■ Management override of controls	<p>Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.</p> <p>By its nature, there are no controls in place to mitigate the risk of management override.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements</li> <li>Reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud</li> <li>Obtained an understanding of the business rationale for significant transactions that are outside the normal course of business for the Council or that otherwise appear to be unusual.</li> </ul>	<p>No issues were identified from our review of the appropriateness of journal entries and other adjustments to the financial statements.</p> <p>Our work on accounting estimates has not identified any evidence of bias.</p> <p>We have not identified any unusual transactions.</p>

## KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
2	<p><b>Revenue and expenditure recognition</b></p>	<p>Under auditing standards there is a presumption that income recognition presents a fraud risk.</p> <p>Our Audit Plan identified a risk in relation to the existence and accuracy of fees and charges credited to net cost of services recorded in the Comprehensive Income and Expenditure Statement (CIES) throughout the year and the cut-off of this income at year end.</p> <p>In the public sector the risk of fraud in revenue recognition is modified by Practice Note 10 (PN10), issued by the Financial Reporting Council. PN10 states that auditors should also consider the risk that material misstatements may occur through the manipulation of expenditure recognition. This risk is identified as being relevant to cut-off of expenditure.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• Tested an increased sample of fees and charges income credited to the net cost of services to underlying documentation and confirmed the existence and accuracy of transactions throughout the year</li> <li>• Tested a sample of receipts either side of year end, to confirm that income has been recorded in the correct period and that all income that should have been recorded at year end has been</li> <li>• Tested a sample of expenditure either side of year end, to confirm that expenditure has been recorded in the correct period.</li> </ul> <p>We did not identify any issues in our testing of revenue from fees and charges credited to the net cost of services.</p> <p>We did not identify any issues in our testing of receipts either side of year end.</p> <p>We did not identify any issues in our testing of expenditure either side of year end.</p>





## KEY AUDIT AND ACCOUNTING MATTERS

3	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
	Valuation of non-current assets	<p>Local authorities are required to ensure that the carrying value of non-current assets is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date.</p> <p>The Council appointed an external valuer to carry out a year end desktop review on all property categories.</p> <p>Due to the significant value of the Council's non-current assets, and the high degree of estimation uncertainty, our Audit Plan identified a risk over the valuation of non-current assets where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year end.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>Reviewed the instructions provided to the valuer and the valuer's skills and expertise in order to determine if we can rely on the management expert</li> <li>Confirmed that the basis of valuation for assets valued in year is appropriate, including checking that investment properties and surplus assets have been valued at 'highest and best use'</li> <li>Reviewed the reasonableness of assumptions used in the valuations against indices and price movements for classes of assets, and the Council's critical assessment of the external valuer's conclusions.</li> </ul>	<p>From our review of the instructions provided to the valuer, the valuer's reports and central assurance regarding the work on the valuer commissioned by the National Audit Office, we are satisfied that we can rely on the management expert.</p> <p>We confirmed that the basis of valuation for assets valued in year is appropriate based on Code requirements.</p> <p>We noted that the Council had incorrectly applied indexation to the heating, roof and electrical components of two theatres, thereby overstating land and buildings by £202,000. Management has amended this in the final financial statements.</p> <p>Our consideration of assumptions used and valuation movements are set out on the next two pages.</p>

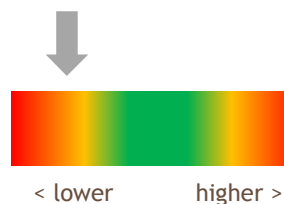
# KEY AUDIT AND ACCOUNTING MATTERS

## SIGNIFICANT ACCOUNTING ESTIMATES

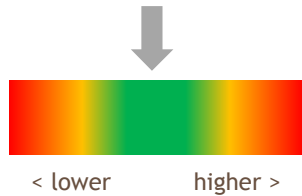
### Land, buildings, dwellings and investment property valuations

ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT	IMPACT
<p>Land and buildings are valued by reference to existing use market values</p> <p>Dwellings are valued by reference to open market value less a social housing discount</p> <p>Investment properties are valued by reference to highest and best use market value</p> <p>Some specialist buildings are valued at depreciated replacement cost (DRC) by reference to building indices</p>	<p>The Council appointed an external valuer to carry out a year end desktop review on all property categories. This resulted in a net upwards revaluation movement of £13.783 million in the year for property, plant and equipment (£11.823 million as impairment reversals to the surplus on provision of servicers and £1.960 million to the revaluation reserve) and a loss of £792,000 for investment properties in the draft financial statements submitted for audit.</p> <p><b>Council dwellings</b></p> <p>The valuer estimated that council dwellings had increased by 6% in the year, which resulted in the Council recognising revaluation gains of £10.634 million. This is higher than the UK House Price index for Eastbourne, which indicates an increase of 3.8% for the year.</p> <p>We challenged the valuer's assumptions and he confirmed that his estimate was made in January 2018 when he assumed that prices would continue to remain consistent in the last two months of the year. He acknowledged that the market data now indicates that there was an unusual and unexpected dip over the final two months of the year, which has resulted in the lower average change of between 3% and 4% being reported.</p> <p>As a result, council dwellings were overstated by £3.904 million at year end, if an index of 3.8% is applied. As this is a material difference, management has amended this in the final financial statements.</p> <p><b>Other land and buildings valued on depreciated replaced cost basis</b></p> <p>The valuer estimated that specialised properties increased by 4% in the year, which resulted in the Council recognising revaluation gains of £3.143 million.</p> <p>These assets comprise mainly museums, tennis centres, leisure centres, theatres, chapels, crematoria and public conveniences.</p> <p>We requested further information from the valuer to support the 4% index and the valuer provided the RICS regionalised (for East Sussex) BCIS data, which indicated increases ranging from 3.23% to 5.73% for the different types of properties held by the Council within this category. The average 4% index applied is considered to be within a reasonable range in comparison to this data.</p>	<p style="text-align: center;">↓</p>  <p style="text-align: center;">&lt; lower                  higher &gt;</p> <p style="text-align: center;">↓</p>  <p style="text-align: center;">&lt; lower                  higher &gt;</p>

# KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES		
Land, buildings, dwellings and investment property valuations (continued)		
ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT	IMPACT
As above	<p><b>Other land and buildings valued on an existing use basis</b></p> <p>The valuer estimated that there was no increase in the value of non-specialised properties in the year, therefore the Council did not apply any indexation on assets valued on an existing use basis.</p> <p>Assets that fall within this category comprise mainly non-development land, community assets and car parks. We challenged the valuer regarding the reasonableness of the 0% uplift.</p> <p>For car parks, the valuer confirmed that they are valued on a receipt and expenditure basis, based on three years' prior information, and would only be materially affected if the charging structure changed significantly or an individual asset changed materially, such as if part of the car park closed or an extension was added. We are satisfied that there have not been any significant changes of this nature to car parks, and therefore it is considered appropriate that no indexation has been applied.</p> <p>For community assets and non-development land, the valuer's estimate is based on the assumption that there have been no marked changes to rental values or yields for these property types within the portfolio over the year and therefore no indexation required. However, our review of the movement in the MSCI capital index shows an average of 4.7% increase since the last formal valuation at 1 March 2016.</p> <p>In assessing the appropriateness of the Council's nil indexation approach, we have set a reasonable range, based on our professional judgement and taking into account the reliability and quality of the market information available. Accepting a tolerance of 3% either side of the MSCI capital index, to allow for location and other factors, we have calculated that other land and buildings valued on an existing use basis are stated at a value that is £401,000 below what we have estimated as a reasonable range for the value.</p> <p>The Code only requires revaluations to be undertaken with sufficient regularity to be materially accurate and does not require valuations where the movement is not material. Whilst this estimated difference is not material, we are required to include it in our schedule of audit differences to ensure that the aggregate of potential differences is not material. Therefore, this has been included as an estimated audit difference in Appendix I (<i>misstatement 2</i>).</p>	 <p>&lt; lower                  higher &gt;</p>

# KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES		
Land, buildings, dwellings and investment property valuations (continued)		
ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT	IMPACT
As above	<p><b>Investment properties</b></p> <p>The fair value loss of £792,000 recognised in the financial statements represents an overall decrease of 14% compared to the opening balance at 1 April 2017.</p> <p>Hampden Retail Park comprises £16.982 million of the closing balance of £23.893 million on investment properties. This property decreased in value by £2.119 million compared to the price that the Council paid for it in May 2017. The original valuation provided by the valuer indicated an even lower valuation but it was challenged by management and the valuer subsequently provided a revised valuation.</p> <p>Movements in other investment properties varied significantly, as would be expected for fair values based on highest and best use, from -2% to 11%.</p>	 <p>&lt; lower higher &gt;</p>


## KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
<p>4 Pension liability assumptions</p>	<p>The net pension liability comprises the Council's share of the market value of assets held in the East Sussex County Council's Pension Fund and the estimated future liability to pay pensions. An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>Our Audit Plan identified a risk that the membership data and cash flows provided to the actuary at 31 March may not be correct, or the valuation uses inappropriate assumptions to value the liability.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>Agreed the disclosures to the information provided by the pension fund actuary</li> <li>Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data</li> <li>Obtained assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary</li> <li>Checked whether any significant changes in membership data have been communicated to the actuary.</li> </ul>	<p>No issues were identified in the financial statements disclosures when compared to the actuary's report.</p> <p>Our review of assumptions used to estimate the value of the pension liability concluded they are not unreasonable (see next page). We used the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions.</p> <p>The auditor of the pension fund has provided assurance over the 2016 data used in the last full valuation and the roll-forward valuations.</p> <p>Our review of the actuary's report found that it incorrectly excluded the bulk transfer of assets and liabilities from the Eastbourne Homes Limited (EHL) scheme. The EHL scheme closed on 31 July 2017 when the company's staff transferred to the Council. As a result, the Council obtained a revised report from the actuary that included the bulk transfer-in. This has resulted in an increase in the liability by £1.208 million, with a corresponding increase in the credit for re-measurement of the net defined pension liability by £1.186 million and an increase in the interest charge by £22,000. Management has amended this in the final financial statements, together with a number of other disclosure updates within the pensions note.</p>

## KEY AUDIT AND ACCOUNTING MATTERS

### SIGNIFICANT ACCOUNTING ESTIMATES

#### Pension liability assumptions

ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT	IMPACT																																								
The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows	<p>As at 31 March 2018 net pension liabilities disclosed in the Balance Sheet increased by £2.18 million (after the amendment noted on the previous page) compared to the balance at 31 March 2017. The increase related mainly to the transfer in of EHL staff. The majority of other assumptions remained consistent between the years other than an increase in the discount rate (this reduced the liability).</p> <p>The actuary has used the following assumptions to value the future pension liability:</p> <table border="1"> <thead> <tr> <th></th> <th>Actual used</th> <th>Actuary range</th> <th>PwC assessment of actuary range to market expectations</th> </tr> </thead> <tbody> <tr> <td>CPI increase</td> <td>2.4%</td> <td>2.4%</td> <td>Reasonable</td> </tr> <tr> <td>Salary increase</td> <td>2.8%</td> <td>--</td> <td>Scheme and employer specific - appears reasonable in context of CPI/RPI</td> </tr> <tr> <td>Pension increase</td> <td>2.4%</td> <td>2.4%</td> <td>Reasonable</td> </tr> <tr> <td>Discount rate</td> <td>2.6%</td> <td>2.6-2.7%</td> <td>Reasonable</td> </tr> <tr> <td colspan="4">Mortality - LGPS:</td> </tr> <tr> <td>- Male current</td> <td>22.1 years</td> <td>21.5-22.8</td> <td>Reasonable</td> </tr> <tr> <td>- Female current</td> <td>24.4 years</td> <td>24.1-25.1</td> <td>Reasonable</td> </tr> <tr> <td>- Male retired</td> <td>23.8 years</td> <td>23.7 - 24.4</td> <td>Reasonable</td> </tr> <tr> <td>- Female retired</td> <td>26.3 years</td> <td>26.2 - 26.9</td> <td>Reasonable</td> </tr> </tbody> </table> <p>The assumptions used all fall within the acceptable range for the actuary.</p>		Actual used	Actuary range	PwC assessment of actuary range to market expectations	CPI increase	2.4%	2.4%	Reasonable	Salary increase	2.8%	--	Scheme and employer specific - appears reasonable in context of CPI/RPI	Pension increase	2.4%	2.4%	Reasonable	Discount rate	2.6%	2.6-2.7%	Reasonable	Mortality - LGPS:				- Male current	22.1 years	21.5-22.8	Reasonable	- Female current	24.4 years	24.1-25.1	Reasonable	- Male retired	23.8 years	23.7 - 24.4	Reasonable	- Female retired	26.3 years	26.2 - 26.9	Reasonable	<p style="text-align: center;">↓</p>  <p style="text-align: center;">&lt; lower                      higher &gt;</p>
	Actual used	Actuary range	PwC assessment of actuary range to market expectations																																							
CPI increase	2.4%	2.4%	Reasonable																																							
Salary increase	2.8%	--	Scheme and employer specific - appears reasonable in context of CPI/RPI																																							
Pension increase	2.4%	2.4%	Reasonable																																							
Discount rate	2.6%	2.6-2.7%	Reasonable																																							
Mortality - LGPS:																																										
- Male current	22.1 years	21.5-22.8	Reasonable																																							
- Female current	24.4 years	24.1-25.1	Reasonable																																							
- Male retired	23.8 years	23.7 - 24.4	Reasonable																																							
- Female retired	26.3 years	26.2 - 26.9	Reasonable																																							

## KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
5 Group Accounts	<p>At the time of our audit planning, the Council held 49% of the voting rights and 21% of the non-voting rights in Greencoat House Limited, the holding company for Wealden and Eastbourne Lifeline Limited (Welbeing). This was considered to be an associate, as the Council had significant influence but not control over these organisations. Historically the Council has not included them in its Group Accounts, as their transactions have not been material. Welbeing has now completed its fourth year of operation and it is possible that accumulated retained profits have increased to a material level. This would require the transactions to be included in the Council's Group Accounts, using equity accounting.</p> <p>In addition, the Council has an interest in a new joint housing investment partnership with Lewes District Council, Aspiration Homes Limited. The Council's share of the joint arrangement depends on the value and timing of transactions in the new company. If material, an assessment will need to be made as to whether the joint arrangement comprises a joint venture or a joint operation under IFRS 10 <i>Consolidated Financial Statements</i> and Group Accounts will need to be prepared.</p> <p>Our Audit Plan identified a risk that income, expenditure, assets and liabilities in the Group Accounts will not be complete if the Council does not account for its share of material transactions in Welbeing and Aspiration Homes Limited.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>Reviewed the financial statements and management accounts of Welbeing and Aspiration Homes Limited and assessed whether management has fully considered the need to include its interest in these entities in its Group Accounts</li> <li>Determined whether the Council has appropriately accounted for its interest in these entities, where material, taking account of the nature and underlying substance of the joint arrangement.</li> </ul>	<p>During 2017/18 the Council purchased additional 'B' shares in Greencoat House Limited, which were subsequently converted into 'A' shares by Board resolution. This increased its shareholding to 49% of the voting rights and 26% of non-voting rights. We did not initially have the full audit trail supporting the conversion of the 'B' shares to 'A' shares and therefore it appeared to us that the Council had acquired control of the entity, which would have required consolidation in the Group Accounts. However, management subsequently provided evidence to us to confirm that the Council's voting rights remained capped at 49% and that it did not have control of the company under the requirements of IFRS 10.</p> <p>The management accounts of Welbeing indicate that the company had retained earnings of £2.086 million at 31 March 2018. The holding company has negligible negative retained earnings. Therefore, based on our materiality level of £2.2 million for the Group Accounts, we are satisfied that the Council's 75% interest in the two entities is not material.</p> <p>Review of the financial statements of Aspiration Homes Limited indicates that the company has not had any material activity since incorporation and therefore the Council has not consolidated its 50% interest in this company in its Group Accounts.</p>

## KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
<p><b>6</b></p>	<p><b>Recharges between the Council and Lewes District Council and redundancy costs</b></p>	<p>The Council has undergone a major Joint Transformation Programme (JTP) with Lewes District Council to merge frontline services and back office functions.</p> <p>In February 2017, the vast majority of Lewes District Council employees were transferred onto the Council's payroll. There are recharging arrangements in place for each of the four key service areas (Corporate Management Team, Information Technology, Human Resources and Asset Management) and for employees outside of these services. On a monthly basis, the Council calculates, based on these arrangements, the amount to be recharged via invoice back to Lewes District Council.</p> <p>Legal Services are held within Lewes District Council and the Council is recharged for these services.</p> <p>We understand that the recharge percentages may change when budgets are realigned in 2017/18. Given that this is the first full year of these recharge arrangements, there remains a risk over the accuracy of expenditure in the Comprehensive Income and Expenditure Statement.</p>	<p>We have reviewed the reasonableness and accuracy of the recharge arrangements in place between the councils, seeking assurance that the Council's share of the costs is in line with approved recharge arrangements.</p> <p>We obtained the recharge tracker and confirmed that there are arrangements in place to maintain the spreadsheet on a monthly basis and recharge Lewes District Council via invoices. For the service lines that were set up as shared service arrangements in phase one of the JTP, there are set percentages in place for the amounts recharged, which are between 40% and 50% per service.</p> <p>As further shared services and greater integration between Council staff has developed during the year, the Council has moved away from recharging Lewes District Council 100% of the hosted payroll cost and is allocating payroll and some non-payroll costs between the councils on a shared service basis. Our testing has confirmed that costs are split between 40% and 50% dependent on the service line.</p> <p>In our prior year audit, we confirmed from review of Cabinet minutes and discussions with management of both Councils that delegated authority was given the Deputy Chief Executive to determine the appropriate split of JTP costs and benefits.</p> <p>Internal Audit concluded in their main accounting system review that Shared Service Agreements are not filed with the recharges working papers as supporting documentation for costs split between the councils. Whilst we have found no evidence of unreasonable recharges between the councils, we have repeated Internal Audit's recommendation in Appendix I as there is scope to strengthen the governance arrangements in this area.</p>



## KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
<p>6 Recharges between the Council and Lewes District Council and redundancy costs (continued)</p>	As above.	As above.	<p>Our audit noted that amounts recharged to Lewes District Council were recorded on a gross basis within the Comprehensive Income and Expenditure Statement, and comparatives had been restated in the draft financial statements to also record prior year recharges on a gross basis, in a separate line within net cost of services. Following discussions with management, it was agreed that the Council is acting in an agent capacity in these joint operations, sharing the risks and rewards with Lewes District Council, and therefore it is appropriate for each council to recognise its share of income and expenditure on a net basis.</p> <p>As a result, current year net cost of services income and expenditure in the draft financial statements are both overstated by £13.262 million. Management has amended this in the final financial statements.</p> <p>Our audit also found that the Council had recharged Lewes District Council £1.772 million for its share of the revenue costs funded from capital under statute (REFCUS) of the JTP and IT project, with the expenditure being included in new cost of services and the associated recharge recorded as a revenue contribution within non-ringfenced grants and contributions. Management has netted these off in the final financial statements.</p> <p>In addition, our audit found that the Council had included an amount of £1.115 million for Lewes District Council's share of the IAS 19 pension adjustment within the other rechargeable costs line in the Comprehensive Income and Expenditure Statement. This was moved to the corporate services line in the final financial statements.</p>

## KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
6 Recharges between the Council and Lewes District Council and redundancy costs (continued)	There is also a risk that redundancies resulting from the JTP may not be appropriately accounted and disclosed for in line with CIPFA's Code of Practice on Local Authority Accounting 2017/18.	We reviewed the completeness and accuracy of redundancy accruals and provisions and exit package disclosures.	Our audit of exit packages has not identified any issues.

## KEY AUDIT AND ACCOUNTING MATTERS

### OTHER ISSUES

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

	AUDIT AREA	AUDIT FINDINGS
1	Property, plant and equipment note	<p>Our audit identified the following issues in respect of the property, plant and equipment note, which management has amended in the final financial statements:</p> <ul style="list-style-type: none"> <li>• Three buildings with a total net book value of £98,000 have been demolished but not removed from the fixed asset register or the accounts</li> <li>• The number of garages recognised as disposals in the fixed asset register and draft accounts was 42, instead of actual disposals of 68, with the result that other land and building were overstated by £127,000</li> <li>• The disclosure of cost/valuation of assets in Note 18.2 is materially incorrect</li> <li>• The narrative in Note 18.2 does not set out the indexation applied at year end for assets valued on a depreciated replacement cost basis or consideration of price movements for assets valued on an existing use basis</li> <li>• The disclosure of capital commitments in Note 18.4 is overstated by £2.378 million for the Devonshire Park project, due to uncontracted costs being included for smaller suppliers, and the disclosure for improvement of council dwellings is understated by £315,000.</li> </ul> <p>We have included a recommendation in Appendix II relating to the accurate and timely provision of asset information to Finance.</p>
2	Debtors note	<p>The disclosure of the loan to Eastbourne Housing Investment Company Limited in Note 24 is overstated by £1.827 million as it includes an amount repaid in respect of a property transferred to Aspiration Homes LLP during the year.</p> <p>Management has amended this in the final financial statements.</p>
3	Contingent liabilities	<p>Our audit identified a few misstatements in the disclosures regarding Municipal Insurance Limited:</p> <ul style="list-style-type: none"> <li>• The year of payment for the £70,000 was incorrect as it was 2013/14, not 2014/15</li> <li>• An additional payment of £47,000 made in 2015/16 was not disclosed</li> <li>• The retention levy of £50,000 should be added so that the numbers reconcile in the note.</li> </ul> <p>Management has amended this in the final financial statements.</p>

## KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	AUDIT FINDINGS
4	Recharges to Eastbourne Homes Limited	<p>Our audit noted that amounts totalling £1.739 million recharged to Eastbourne Homes Limited were recorded on a gross basis within the Comprehensive Income and Expenditure Statement. Following a transfer of Eastbourne Homes Limited staff into the Council during 2017/18, the Council now recharges the company for the staff costs that it incurs on its behalf. The Council is considered to be acting in an agency capacity and therefore it is appropriate for the Council to net the recharges off against the associated expenditure.</p> <p>As a result, net cost of services income and expenditure in the draft financial statements are overstated by £1.739 million. Management has amended this in the final financial statements.</p>
5	Audit fees	<p>The disclosure of audit fees payable for the certification of grant claims and returns is understated by £9,000 for the current year and approximately £10,000 for the prior year (our work on the 2016/17 claim is still in progress and a final fee will be agreed on completion of this work).</p> <p>Management has amended this in the final financial statements.</p>
6	Subsequent events	<p>The Council sold its investment in Greencoat Limited (Welbeing) for £8.3 million in May 2018. The Council received £1.3 million for settlement of the long term debtor and a £7 million capital receipt in cash.</p> <p>Management has disclosed this in the subsequent events note in the final financial statements.</p>
7	Housing Revenue Accounts (HRA) notes	<p>Our audit identified the following issues in respect of the HRA notes, which management has amended in the final financial statements:</p> <ul style="list-style-type: none"> <li>• The disclosed vacant possession value is materially misstated</li> <li>• The rent arrears balance disclosed is net of impairment allowance; the gross amount disclosed should be disclosed.</li> </ul>
8	Financial instruments note	<p>Our audit identified a material error in the disclosed amount for creditors within financial liabilities, which has been corrected in the final financial statements.</p>
9	Comparatives	<p>Our audit found that a few of the comparative figures did not agree to the prior year audited financial statements, including some comparatives in the financial instruments note and capital expenditure and financing note.</p>

# KEY AUDIT AND ACCOUNTING MATTERS

## MATTERS REQUIRING ADDITIONAL CONSIDERATION

We comment below on other matters requiring additional consideration:

AUDIT AREA	AUDIT FINDINGS
1	<p>Fraud</p> <p>Whilst the directors have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from those charged with governance on whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Plan on 7 March 2018.</p>
2	<p>Internal audit</p> <p>We reviewed the audit work of the Council's internal audit function to assist our risk scoping at the planning stage.</p>
3	<p>Related parties</p> <p>We are required to consider if the disclosures in the financial statements concerning related party transactions are complete, accurate and in line with the requirements of the accounting standards.</p> <p>We have agreed the related party note to supporting working papers and declaration forms, reviewing the ledger to ensure accuracy of the stated figures and carrying out companies' house searches to confirm completeness of the disclosures. No issues identified.</p>

## OTHER REPORTING MATTERS

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

MATTER	COMMENT
1	<p>We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.</p>
	<p>We are satisfied that the other information in the Statement of Accounts is consistent with the financial statements and our knowledge.</p> <p>A table has been added to the Narrative Report as a result of the audit, to show the link between the Council's management accounts and the Expenditure and funding analysis note in the financial statements.</p>
2	<p>We are required to report by exception if the Annual Governance Statement does not meet the disclosure requirements set out in the guidance 'Delivering Good Governance in Local Government Framework' (2016 Edition) published by CIPFA/SOLACE or is misleading or inconsistent with other information that is forthcoming from the audit.</p>
	<p>We have no matters to report in relation to the Annual Governance Statement's compliance with relevant guidance.</p>

# CONTROL ENVIRONMENT

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

As the purpose of the audit is for us to express an opinion on the Council's financial statements and use of resources, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

We note that the Council's internal audit function has issued a number of observations and recommendations on the Council's control environment during 2017/18. We have not repeated these recommendations in this report unless we consider them to highlight significant deficiencies in control, which we are required to report to you.

We are not aware of any significant deficiencies in the Council's internal controls in 2017/18.

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

---

## WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

	MATTER	COMMENT
1	Auditors are required to review Whole of Government Accounts (WGA) information prepared by component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure. The Council falls below the threshold for review and there is no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure.	Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 14 June 2018. The Council submitted its DCT by the approved extended deadline of 20 July 2018. We will submit the relevant section of the assurance statement to the National Audit Office (NAO) by the auditors' deadline of 31 August 2018.



## USE OF RESOURCES

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money) and report to you on an 'except for' basis. This is based on the following reporting criterion:

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

There are three sub criteria that we consider as part of our overall risk assessment:

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

We reported our risk assessment, which included use of resources significant risks, in the 2017/18 Audit Plan issued in February 2018. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the draft financial statements, and we have not included any additional significant risks.

We report below our findings of the work designed to address these significant risks and any other relevant use of resources work undertaken.

**Key:** ■ Significant risk

---

## USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
<b>Sustainable finances</b>	<p>The update to the Medium Term Financial Strategy (MTFS) to 2019/20 has forecast further reductions in Government core grant funding, falling New Homes Bonus funding from 2017/18 and annual inflationary and pay award pressures.</p> <p>Budget gaps have been identified in 2017/18 (£1.143 million), 2018/19 (£1.022 million) and 2019/20 (£1.011 million), resulting in an average level of required savings of £1.058 million per annum over the period.</p> <p>The Council currently has a number of major development / transformation programmes in place to either help facilitate these savings or create additional revenue streams in the medium term, to close the budget gaps.</p> <p>In our Audit Plan we identified a risk that the MTFS does not adequately take account of the investment costs and savings associated with these projects, and that the Council does not have appropriate arrangements to monitor progress in delivering benefits from these projects against the MTFS.</p> <p>As a starting point for assessing the effectiveness of the Council's arrangement for ensuring sustainable finances, we reviewed current year outturn and the Council's reserves position.</p>	<p><b>General Fund</b></p> <p>The Council has a track record of delivering underspends in the General Fund. In 2017/18, the Council originally budgeted for a decrease in the general fund of £1.143 million, before transfers from earmarked reserves. There were some variances in the year but the final position against the revised budget was an underspend of £434,000. This was largely due to overachievement of income targets in a few areas and an underspend on the refuse collection contract.</p> <p>The general fund balance at 31 March 2018 is £3.033 million, an increase of £373,000 from the balance at 31 March 2017. This remains above the £2 million minimum level recommended by the Section 151 Officer. The balance on general fund earmarked reserves at 31 March 2018 is £5.305 million, a decrease of £651,000 from the balance at 31 March 2017. This amounts to a net decrease of £278,000 in combined general fund reserves in the year.</p> <p>The decrease in earmarked reserves largely related to £1.267 million use of capital reserves set aside for financing one-off capital schemes, partly offset by a £528,000 increase in the Devonshire Park review reserves set up to cover any revenue shortfalls from the Devonshire Park redevelopment project.</p> <p><b>Housing Revenue Account</b></p> <p>The balance on the Housing Revenue Account (HRA) increased by £822,000 in 2017/18, to £5.188 million at 31 March 2018, which is £449,000 higher than budgeted. This is largely due to the take up of under occupation scheme and reduction in provision for bad debt requirement. The HRA balance is considered sufficiently robust to support the housing self-financing 30 year business plan.</p> <p><b>Collection Fund</b></p> <p>The council tax balance in the Collection Fund remained in surplus by £1.267 million at 31 March 2018, despite a deficit of £166,000 incurred in the year. The Council's share of the closing surplus is £165,000, a trivial variance compared to 2016/17.</p> <p>The Council collected £33.321 million of non-domestic rates during the year. Under the non-domestic rates retention scheme the Council retains 40% of this, after deducting the £10.330 million for tariff payment payable to the Government and the Council's share of the £1.223 million provision for non-domestic rate appeals. A deficit of £1.145 million was incurred during the year, and the overall position is a deficit of £3.521 million. This is largely due to charges for appeals against valuations, including in particular a number of large backdated appeal refunds totalling £2.8 million made during the year.</p> <p>As a result, the overall Collection Fund is in deficit by £2.2654 million at 31 March 2018, which is a deterioration on the prior year deficit balance of £943,000. However, we are satisfied that the Collection Fund is being adequately monitored and managed.</p>

## USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
Sustainable finances (continued)	<p>We reviewed the assumptions used in the MTFS for investment costs and savings associated with major development/transformation programmes.</p> <p>We also reviewed the Council's arrangements for monitoring the progress of these programmes against the budgeted savings targets.</p>	<p><b>Medium term financial strategy</b></p> <p>The Council achieved £803,000 of its budgeted savings target for the year of year of £981,000. A key component of this is savings from the Joint Transformation Programme (JTP) with Lewes District Council, although this under-achieved by £175,000 against the budget. Management expects the shortfall to be made up during 2018/19.</p> <p>An updated MTFS from 2018 - 2021 was approved by Cabinet in July 2018. Revised budget gaps have been identified in 2018/19 (£1.350 million), 2019/20 (£775,000), 2020/21 (£1.478 million) and 2021/22 (£765,000), resulting in an average level of required savings of £1.1 million per annum over the four year period. This is a similar level of average savings compared to the previous MTFS update. The savings for 2018/19 have been identified and relate largely to planned new income streams, the JTP shared transformation programme and procurement savings.</p> <p><b>Joint transformation programme with Lewes District Council to provide joint services</b></p> <p>As reported above, the Council is currently in the process of undergoing a major Transformation Programme with Lewes District Council, both in the provision of frontline services and the organisation of back office functions. This is being delivered over three phases.</p> <p>Following the implementation of phase one in 2016/17, which covered management and corporate activity, phase two was implemented in 2017/18, covering frontline services and delivery of further savings. Phase three is planned for 2018/19, with an ongoing review of support services and planned savings of £800,000. Although the exact savings figure for phase two will not be established until the final vacant roles are recruited, we do not have any significant concerns regarding achievement of the savings targets.</p> <p>Good progress has been made on key technology projects to align the two councils. During the year the Customer First; Homes First and Neighbourhood First brands were launched. A new joint website and intranet were also delivered.</p> <p>Delivery of the transformation is being managed within the £6.8m budget and overall the £2.8m of savings for JTP Phases 1 and 2 are on track to be achieved.</p> <p>Challenges within the programme are known and being managed to ensure successful delivery of the overall programme goals.</p> <p>The Programme has a clear governance structure led by a Programme Board and regular meetings.</p> <p>We note that the savings targets currently only include staff costs. A number of other savings are expected by the councils but are not included in the MTFS expectations, as they cannot yet be quantified.</p>

## USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
Sustainable finances (continued)	As above.	<p><b>Major project for the enhancement of the current Devonshire Park Complex</b></p> <p>The Council has embarked on a major project to significantly improve the Devonshire Park complex. The project includes restoring the Devonshire Park Theatre, Winter Garden and Congress Theatre, demolishing the existing Congress suite buildings and Devonshire Park pavilions and creating a new reception building, and improvements to the International Tennis Court. When it is fully operational, the investment will provide an opportunity to manage the site as a single entity, as currently the functions of the theatres, catering and events are all managed as separate units within the Tourism and Enterprise Directorate.</p> <p>The project is being funded by a combination of borrowings and capital receipts.</p> <p>Construction is currently in line with the construction programme agreed in the main contract, with completion expected by March 2019 and opening in spring 2019.</p> <p>The project needed a budget increase in 2017/18 and an increase of £4.360 million capital expenditure in 2018/19 was agreed by Cabinet in March 2018.</p> <p><b>Redevelopment of the Sovereign Centre leisure facilities</b></p> <p>In 2016/17 Cabinet approved the construction of a new leisure centre to replace the current Sovereign Centre, and to include £24.48 million in the capital programme to fund construction.</p> <p>The objective of the project is to secure a new centre to meet the needs of residents and visitors while reducing the current annual cost.</p> <p>The procurement process to select an operator for the new Sovereign Centre commenced in May 2017 but the Council subsequently discontinued the process after having considered alternative options.</p> <p>In July 2018, Cabinet approved a revised design for the new centre and the budget was increased to £28.3 million for construction, professional fees, framework costs, surveys and other enabling costs. This estimate includes provision for contingency and inflation and debt charges while the centre is under construction.</p> <p>The net cost to the Council under the revised plans, after debt costs, are estimated to be lower than the current annual cost.</p>

## USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
Sustainable finances (continued)	As above.	<p>The MTFS does not currently assume any net saving from the scheme, although it also does not allow for any growth in the cost of the service.</p> <p>Management is currently seeking further advice on the optimal financial structure for a new operator contract.</p> <p><b>Joint housing investment partnership with Lewes District Council</b></p> <p>Aspiration Homes was incorporated in June 2017 as a Limited Liability Partnership with Lewes District Council, with the primary purpose of delivering new affordable housing.</p> <p>In February 2018, Cabinet approved a loan facility of £10 million from the Council to Aspiration Homes to enable it fund its development costs. An initial programme to develop new sites has been agreed and in July 2018 Cabinet approved the allocation of £6.9 million to fund these projects. This would leave £3.1 million of the initial loan facility available for further affordable housing development opportunities.</p> <p>The loans would be secured against the property assets of Aspiration Homes and interest paid to the Council by Aspiration Homes will be credited to the General Fund. The Council will need to borrow to cover these loans but management has assessed that the cost of servicing any such new general fund borrowing will be less than the interest payments received from Aspiration Homes, generating a net income stream for the Council.</p> <p>The new housing will also assist the Council in meeting its wider economic and regeneration aims and address housing need.</p> <p>The Council has a housing strategy feasibility budget of £200,000 for site assessments related to housing development in respect of Aspiration Homes Limited and the Council's other housing subsidiaries.</p> <p><b>Joint venture for energy and sustainability</b></p> <p>The Council has set up a procurement and delivery framework, called Clear Futures. It was developed jointly with Lewes District Council in a contractual joint arrangement with Robertson Capital Projects Limited and AECOM Limited, who were approved as the preferred bidders during the procurement process in 2017/18.</p>

## USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
Sustainable finances (continued)	As above.	<p>The aim is to deliver a range of innovative developments to meet environmental ambitions whilst also ensuring resilience against future energy and sustainability. Management expects the joint venture to offer significant advantages in accelerating the delivery of projects, as a low risk option for the Council. In July 2017, Cabinet also approved the setting up of a new Joint Board for Energy &amp; Sustainability combined with Lewes District Council, which will be overseen through a “Strategic Partnering Agreement”.</p> <p>The development of future new homes by Aspiration Homes Limited and the development of the new leisure centre, as reported above, will both primarily be through the Clear Futures joint venture.</p> <p>A new Wish Tower restaurant is also being delivered through the Clear Futures joint venture. The design development is being finalised by the architects, and a preferred contractor has been appointed. Opening of the restaurant is planned for April 2019. This also supports the Council’s regeneration objectives.</p> <p>A pipeline of other projects for the Clear Futures joint venture is being developed.</p> <p><b>Conclusion</b></p> <p>We are satisfied that the MTFS takes accounts of the investment costs associated with the Council’s major transformational projects, and once these scheme are further established, management should be in a better place to forecast all of the associated savings going forward.</p>

# APPENDICES

# APPENDIX I: AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Audit and Governance Committee is required to consider. This includes: audit differences that have been corrected by management; and those that remain uncorrected along with the effect that they have individually, and in aggregate, on the financial statements.

## ADJUSTED AUDIT DIFFERENCES

Our audit identified two material misstatements, which management has amended in the final financial statements:

- £13.262 million overstatement of net cost of services income and expenditure as a result of incorrectly accounting for recharges to Lewes District Council under the Joint Transformation Programme on a gross basis instead of on a net basis as appropriate for a joint operation
- £3.904 million overstatement of council dwellings due to incorrect indexation applied at 31 March 2018, as the market did not move in the way that the valuer forecast prior to year end.

These adjustments have decreased the surplus on provision of services by £3.904 million but have not had any impact on the general fund balance as capital adjustments are reversed out to unusable capital reserves.

We also identified material misstatements in the following disclosures, which have been corrected in the final financial statements:

- Capital commitments disclosure
- Financial instruments disclosure for creditors.

## UNADJUSTED AUDIT DIFFERENCES

Our audit identified one unadjusted audit difference this year, which when combined with the effect of a rolled forward prior year unadjusted misstatement, would increase the surplus on provision of services by £462,000, if corrected.

In addition, we found that the liquidity risk disclosure in the financial instruments note has not been prepared on an undiscounted cash flows basis as required by accounting standards; the approach taken by the Council is consistent with prior years.

You consider these identified misstatements to be immaterial in the context of the financial statements taken as a whole. We concur with this judgement, although we also request that you correct the current year audit difference even though not material.



## APPENDIX I: AUDIT DIFFERENCES

	£'000	INCOME AND EXPENDITURE		STATEMENT OF FINANCIAL POSITION	
		DR £'000	CR £'000	DR £'000	CR £'000
Surplus on provision of services before adjustments	(5,667)				
DR Opening general fund reserves				61	
CR Expenditure	(61)		(61)		
<i>(1) Impact of brought forward unadjusted misstatements (net understatement of expenditure in the prior year meaning an overstatement of expenditure in the current year; this could not be corrected in the current year by way of a prior year adjustment as it is not material)</i>					
DR Property, plant and equipment: Other land and buildings				401	
CR Expenditure (all services)	(401)		(401)		
DR General fund				401	
CR Capital adjustment account					(401)
<i>(2) Potential understatement of land and buildings valued on an existing use basis as a result of not applying any indexation for the year (estimated misstatement)</i>					
<b>TOTAL UNADJUSTED AUDIT DIFFERENCES</b>	<b>(462)</b>	<b>-</b>	<b>(462)</b>	<b>863</b>	<b>(401)</b>
Surplus on provision of services if adjustments accounted for	(6,129)				

## APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

Key: ■ Other deficiency in internal control

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

## APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
Property demolitions	<p>Our audit found that three buildings with a total net book value of £98,000 had been demolished but not removed from the fixed asset register or the accounts.</p> <p>We also found that the number of garages recognised as disposals in the fixed asset register and draft accounts was 42, instead of actual disposals of 68, with the result that other land and building were overstated by £127,000.</p> <p>There is a risk of material misstatement in the accounts if information on asset disposals and demolitions is not provided to Finance on a timely basis.</p>	<p>Controls should be strengthened such that all property disposals and demolitions are notified to the finance team on a timely basis.</p>	<p>For the 2018/19 final accounts, the Head of Property will be asked to confirm all disposals and demolitions.</p>	Head of financial Services	March 2019

## APPENDIX III: MATERIALITY

### MATERIALITY - COUNCIL

	FINAL	PLANNING
Materiality	£2,100,000	£2,000,000
Clearly trivial threshold	£42,000	£40,000

Planning materiality of £2 million was based on 2% of gross expenditure, using prior year gross expenditure. We have increased our final materiality level by £100,000, as a result of an increase in gross expenditure this year.

### MATERIALITY - GROUP

	FINAL	PLANNING
Materiality	£2,200,000	£2,000,000
Clearly trivial threshold	£44,000	£40,000

Planning materiality of £2 million was based on 2% of gross expenditure, using prior year gross expenditure. We have increased our final materiality level by £200,000, as a result of an increase in gross expenditure this year.

## APPENDIX IV: INDEPENDENCE

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

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

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

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

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

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

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

---

## APPENDIX V: FEES SCHEDULE

	2017/18 FINAL PROPOSED £	2017/18 PLANNED £	2016//17 FINAL £	COMMENTS
Code audit fee	67,781	67,781	67,781	
Fee for reporting on the housing benefits subsidy claim	11,310**	11,310	20,000*	*This is an estimated fee for 2016/17 against the planned fee of £11,310 included in our Audit Plan, as our work on the benefits subsidy claim is in progress. We will discuss our cost over-runs and proposed additional fees with management when our work is complete, and report back to the Audit and Governance Committee on the agreed position. Additional fees are also subject to agreement by Public Sector Audit Appointments Limited. ** The fee for 2017/18 will depend on whether or not issues occurring in respect of the 2016/17 claim re-occur in the 2017/18 claim, and could be impacted by any other issues that may arise.
<b>TOTAL AUDIT AND CERTIFICATION FEES</b>	<b>79,091</b>	<b>79,091</b>	<b>87,781</b>	
Fees for reporting on other government grants: Pooling of housing capital receipts return	1,500	1,500	1,500	
Fees for other non-audit services	-	-	-	
<b>NON-AUDIT ASSURANCE SERVICES</b>	<b>1,500</b>	<b>1,500</b>	<b>1,500</b>	
<b>TOTAL ASSURANCE SERVICES</b>	<b>80,591</b>	<b>80,591</b>	<b>89,281</b>	

## APPENDIX VI: DRAFT LETTER OF REPRESENTATION

### TO BE TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP  
55 Baker Street  
London  
W1U 7EU

[Date]

Dear Sirs

#### Financial statements of Eastbourne Borough Council for the year ended 31 March 2018

We confirm that the following representations given to you in connection with your audit of the Council's financial statements (the 'financial statements') for the year ended 31 March 2018 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Deputy Chief Executive and Chief Finance Officer has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and Statement of responsibilities of auditors and of audited bodies issued by Public Sector Audit Appointments (PSAA), and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2018 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and for making accurate representations to you.

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and other meetings have been made available to you.

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

There have been no events since the balance sheet date, other than those which have already been disclosed in the 'Events after the reporting period' note to the financial statements, which either require changes to be made to the figures included in the financial statements or to be disclosed in the note. Should any material events of this type occur, we will advise you accordingly.

---

## APPENDIX V: DRAFT LETTER OF REPRESENTATION

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with international financial reporting standards and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have made the results available to you.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving councillors, management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by councillors, employees, former employees, analysts, regulators or any other party.

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

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

We have no plans or intentions that may materially affect the carrying value and where relevant, the fair value measurement, or classification of assets or liabilities reflected in the financial statements.

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

(a) Pension fund

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) scheme liabilities, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

- Rate of inflation (RPI): 3.4%
- Rate of increase in salaries: 2.8%
- Rate of increase in pensions: 2.4%
- Rate of discounting scheme liabilities: 2.6%
- Take up option to convert the annual pension into retirement grant:
  - Pre 31 March 2008: 50%
  - Post April 2008: 75%

We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

(b) Valuation of housing stock, other land and buildings and investment properties

We are satisfied that the useful economic lives of the housing stock and other land and buildings, and their constituent components, used in the valuation of the housing stock and other land and buildings, and the calculation of the depreciation charge for the year, are reasonable.



## APPENDIX VI: DRAFT LETTER OF REPRESENTATION

We confirm that the valuations, including desktop valuations, applied in the year, as provided by the valuer and accounted for in the financial statements, are reasonable and consistent with our knowledge of the business and are not materially misstated at year end. In particular, we are satisfied that:

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

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

(c) Allowance for non-collection of receivables

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

(d) NDR Provision

We are satisfied that the provision for NDR is reasonable.

We have disclosed all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed in accordance with the requirements of accounting standards.

We confirm that the above representations are made on the basis of enquiries of councillors, management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

---

## APPENDIX VI: DRAFT LETTER OF REPRESENTATION

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director and member has taken all the steps that they ought to have taken in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

**Alan Osborne**

Deputy Chief Executive (Chief Finance Officer)

[Date]

**Councillor Swansborough**

Chair of the Audit and Governance Committee

Signed on behalf of the Audit and Governance Committee

[Date]

---

## APPENDIX VII: AUDIT QUALITY

### **BDO is totally committed to audit quality**

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing all necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as a member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at [www.bdo.co.uk](http://www.bdo.co.uk)

---



FOR MORE INFORMATION:

**JANINE COMBRINCK**  
Engagement lead

T: +44 (0)20 7893 2631  
M: +44 (0)7966 288 175  
E: [janine.combrinck@bdo.co.uk](mailto:janine.combrinck@bdo.co.uk)

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

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO Northern Ireland, a separate partnership, operates under a licence agreement. BDO LLP and BDO Northern Ireland are both separately authorised and regulated by the Financial Conduct Authority to conduct investment business.

Copyright ©2018 BDO LLP. All rights reserved.

[www.bdo.co.uk](http://www.bdo.co.uk)

