

Agenda Item

Report to: **Audit and Best Value Scrutiny Committee**

Date: **12 September 2008**

By: **Deputy Chief Executive and Director of Corporate Resources**

Title of report: **Review of Annual Governance Report and Statement of Accounts for 2007-08**

Purpose of report: **For the Committee to review the Independent Auditor's (PKF) report to those charged with governance prior to its submission to the Governance Committee on 23 September 2008.**

RECOMMENDATIONS: The Committee is asked to:

- (i) note the report and its appendices; and
 - (ii) identify any concerns arising from the Independent Auditor's (PKF) Report or the management response to it, that need to be brought to the attention of the Governance Committee
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1. Financial Appraisal

1.1 There are no direct financial implications arising from this report

2. Supporting Information

2.1 Under its terms of reference, it is the role of this Committee to "Review the annual statement of accounts and the external auditor's report to those charged with governance."

2.2 It is the role of the Governance Committee to approve the Annual Governance Report and the Statement of Accounts, having considered whether appropriate accounting policies have been followed and any issues raised by the external auditor from the audit of the accounts.

2.3 The Independent Auditor's (PKF) report to those charged with governance and the Council's Statement of Accounts for 2007/08, along with the covering report under which they will be taken to Governance Committee for approval on 23 September 2008, are set out in Appendix A.

2.4 In carrying out their responsibility for review Members should consider:

- The oral introduction to this item by the Deputy Chief Executive and Director of Corporate Resources, which will be made at the meeting;
- The findings made by the external auditors as a result of their audit of the 2007/08 accounts;
- Whether the management response to those findings is appropriate;
- Whether there are any issues arising that Members wish to bring to the attention of the Governance Committee when it meets to approve the Annual Governance report and Statement of Accounts for 2007/08 on 23 September 2008

SEAN NOLAN
Deputy Chief Executive and Director of Corporate Resources

Contact Officer: **Ola Owolabi - Head of Corporate Finance**
Tel: 01273 482017

Local Members: All

Report to: **Governance Committee**

Date: **23 September 2008**

By: **Deputy Chief Executive and Director of Corporate Resources**

Title of report: **Independent Auditor's (PKF) Annual Governance Report and Statement of Accounts 2007/08**

Purpose of report: **To present the Annual Governance Report, and to report an expected unqualified opinion on the 2007/08 Statement of Accounts**

RECOMMENDATIONS:

- To:
- (1) Note the Independent Auditor's (PKF) Annual Governance Report.**
 - (2) Authorise the Deputy Chief Executive and Director of Corporate Resources to sign the formal Letter of Representation to PKF (UK) LLP.**
 - (3) Approve the Statement of Accounts for publication.**
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1. Financial Appraisal

- 1.1 There are no additional cost implications arising from this report.

2. Annual Governance Report

2.1 PKF (UK) LLP (appointed by the Audit Commission) is obliged to produce an Annual Governance Report (Appendix 1), which formally reports on the outcome of the audit of the financial statements, and also upon the County Council's value for money element of Use of Resources. The report also requires publication of more detailed points, which in the past were treated as routine technical matters between officers and the auditors. As it happens, on this occasion there are few such points.

2.2 Our Independent Auditor's - PKF (UK) LLP plans to produce a Relationship Manager Letter in November 2008, this replaces and expands upon the Annual Audit and Inspection Letter produced in previous years.

3. Changes to Statement of Accounts

3.1 The Governance Committee formally approved the draft Statement of Accounts at its meeting on 26 June, in line with the Accounts and Audit Regulations 2003, (amended by the Accounts and Audit (Amendment) Regulations 2006). Since then the audit has been in progress, and now awaits the final approval of the Independent Auditor, who is expected to provide an unqualified audit opinion.

3.2 The Regulations require me to report on changes to the accounts before they can be published. I am pleased to be able to report that the auditors propose to issue an unqualified opinion and that the audit itself has not revealed any material items that need to be reported to this committee. As in any year, there are some adjustments to correct non-material errors and omissions, as a result of the audit work.

3.3 The Auditors have not come up with any formal recommendations, but has subjected all material balances to testing. Issues arising from normal audit work have been noted, discussed, and resolved as stated in Para 3.14 to 3.31 of the report to those charged with governance.

3.4 The revised set of accounts reflecting all adjustments described above is attached as Appendix 2.

4. Publication of Statement of Accounts

4.1 The legal deadline for publishing the 2007/08 accounts is the end of September 2008. The auditors have completed their work, and now require only a Letter of Representation (Appendix B of the Annual Governance Report) signed by myself to provide an unqualified opinion. This will enable me to place the Statement of Accounts on the website, which fulfils the legal requirement, and to publish the printed document as soon as possible afterwards.

SEAN NOLAN
Deputy Chief Executive and Director of Corporate Resources

Contact Officer: Ola Owolabi, Head of Corporate Finance Tel: 01273 482017



Accountants &
business advisers

East Sussex County Council

Report to those charged with governance

September 2008

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Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any member or officer in their individual capacity or to any third party.

1 Executive Summary

- 1.1 This report summarises the results of the work completed to date for the 2007/08 financial year and is presented to Members in accordance with the provisions of International Auditing Standard 260 (ISA 260), which requires us to communicate our audit findings to "those charged with governance", prior to issuing our opinion on your Statement of Accounts and our conclusion on the adequacy of your arrangements for securing economy, efficiency and effectiveness in your use of resources (our VFM conclusion).

Findings and conclusions

- 1.2 A summary of audit findings and conclusions is included in the table below:

Area of audit	Findings & Conclusion
Accounts	
Key financial systems	The key financial systems are adequate as a basis for preparing the accounts and no significant control weaknesses were identified that impacted on our opinion.
Statement of Accounts.	<p>Some errors were identified in the accounts arising from implementation of the 2007 SORP but these were not regarded as materially affecting the view given by the accounts and have been adjusted in the audited accounts.</p> <p>Some information required to complete our audit remains outstanding at the time of drafting this report. Should these result in any significant issues, we will update Members accordingly.</p> <p>We are satisfied that the Annual Governance Statement is not inconsistent or misleading with other information we are aware of from our audit of the accounts.</p> <p>Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified opinion on the accounts.</p>
Use of Resources	
Use of resources judgements	We have completed the initial phase of our use of resources judgements to assist with the provision of the VFM conclusion. At this stage, we are satisfied that the Council has arrangements in place which at least meet the "adequate" minimum requirement specified by the Audit Commission and therefore the use of resources judgements do not suggest we should qualify our VFM conclusion.
Data Quality	Management arrangements in place for data quality are at least "adequate" for VFM conclusion purposes.
Best Value Performance Plan	We issued an unqualified opinion on the 2007/08 BVPP.
VFM Conclusion	Based on the work undertaken to date we expect to issue an unqualified VFM conclusion.

Objection and complaints

- 1.3 We have received an objection to the accounts, together with several complaints, all of which concern Use of Resources issues. We cannot close the audit for 2007/08 until we have concluded on the objection.

Acknowledgement

- 1.4 We would like to thank the staff of the Council for the co-operation and assistance provided to us during the audit.

2 Introduction

- 2.1 Our Annual Audit and Inspection Plan for 2007/08 outlined the work we would be carrying out at East Sussex County Council (the Council) in order to meet our responsibilities under the Audit Commission's Code of Audit Practice.
- 2.2 This report summarises the results of our audit work completed to date in respect of the Council's accounts and the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 2.3 Our report is presented to Members in accordance with the provisions of International Auditing Standard 260 (ISA 260) which requires us to report certain matters to "those charged with governance", prior to issuing our opinion on the accounts and conclusion on the adequacy of your arrangements for securing economy, efficiency and effectiveness in your use of resources.

Findings

- 2.4 Our detailed findings are set out in the following sections of our report and have been discussed with officers.
- 2.5 In this report we do not provide a comprehensive statement of all weaknesses that may exist in the accounting and control systems or arrangements to secure economy, efficiency and effectiveness, but only those matters which have come to our attention as a result of the audit procedures performed.

Status of our report to the Council

- 2.6 This report has been prepared for Members' and Officers' information only and is not intended to include every matter that may have come to our attention. We accept no responsibility for any reliance that might be placed on it for any purpose by third parties.

Independence

- 2.7 We confirm that we are not aware of any relationships that may bear on our independence and objectivity as auditor and that our independence declaration, included in the Annual Audit and Inspection Plan 2007/08, has remained valid throughout the period of the audit.

3 Accounts

Requirements

- 3.1 The Council is required to publish an audited Statement of Accounts in accordance with proper practices as set out in CIPFA/LASAAC's Code of Practice on Local Authority Accounting in the United Kingdom 2007: A Statement of Recommended Practice (SORP). The Deputy Chief Executive and Director of Corporate Resources is responsible for the preparation of the accounts in accordance with the SORP.
- 3.2 The Code of Audit Practice requires us to provide an opinion on whether the accounts presents fairly the financial position of the Council and its income and expenditure for the year, and whether it has been properly prepared in accordance with appropriate legislation.

Systems, risks and materiality

- 3.3 In carrying out this work we consider:
 - the extent to which your accounting and internal control systems are a reliable basis from which to prepare the accounts
 - the robustness of your accounts preparation processes.
- 3.4 In carrying out this review, we consider the environment within which those controls operate and evaluate specific controls that respond to significant risks. Following our evaluation, we assess whether we can place reliance on particular controls and where reliance is to be placed conduct testing of the relevant controls.
- 3.5 Your key financial systems are:

<ul style="list-style-type: none">• Main Accounting System• Cash and bank• Payments and creditors• Income and debtors• Payroll and employment costs• Information technology	<ul style="list-style-type: none">• Payments and creditors• Investments and investment income• Pension fund payroll• Pension fund investment income• Pension fund investments
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- 3.6 We also consider the risk of material misstatements, including the risk of fraud and error, which may have an impact on our opinion. This requires us to:
 - review the adequacy of the financial systems for accounting for transactions
 - review internal controls that are designed to prevent, or detect and correct, misstatements in the accounts
 - review the arrangements for preparing the Statement of Accounts
 - select and test transactions and balances, including review of significant balances against expectations and substantiate individual items
 - assess the significant estimates and judgements made by officers in preparing the accounts
 - consider the adequacy of presentation and disclosures included in the accounts.

Reporting to those charged with governance

- 3.7 In accordance with the requirements of auditing standards, auditors are required to communicate relevant matters relating to the audit to "those charged with governance".
- 3.8 In particular we are required to report:
- qualitative aspects of accounting practices and financial reporting
 - final draft letter of representation to be agreed by management and those charged with governance
 - unadjusted misstatements
 - expected modifications to the audit report
 - material weaknesses in accounting and internal control systems identified during our work
 - matters required to be communicated by other ISAs
 - any other audit matters of governance interest.
- 3.9 Our comments in each of these areas are set out below:

Accounting practices and financial reporting

Application of accounting policies

- 3.10 The key changes introduced by the 2007 SORP were:
- the introduction of a revaluation reserve, with a "Year 1" nil opening balance
 - the introduction of the Capital Adjustment Account which replaces the Fixed Asset Restatement Account and the Capital Financing Account
 - the introduction of Financial Reporting Standards 25, 26 and 29 relating to the accounting treatment for financial instruments
- 3.11 In general the Council has dealt with the implementation of these changes in an appropriate manner and assisted the audit in the review of the changes required. However, we have noted some issues arising from our work on these areas in the later section on testing of transactions and balances.

The accounts preparation process

- 3.12 As part of our planning for the audit, we prepared a detailed document request which outlined the information that we required to complete the audit. The Council provided us with files of comprehensive working papers and draft accounts on 21 July 2008.
- 3.13 In addition to the documents request we have, over the course of the audit, also sought the provision of additional documentation. These requests have sometimes required follow up in the service departments which has led to occasional delays. We are grateful to the support of the corporate finance team in obtaining the necessary information as quickly as possible.

Testing of transactions and balances

- 3.14 As part of our audit, all material balances were subject to testing. The following matters have arisen from our work which we bring to your attention:
- ##### **Concessionary fares**
- 3.15 Review of the levels of income and expenditure for the year have identified an issue with the current treatment of amounts relating to Concessionary fares. The disclosure in the draft

accounts shows, in line with established previous practice, the gross position, with the Council having recorded £18.5m of income and £18.5m of expenditure.

- 3.16 However, discussions with officers have indicated that the arrangements for concessionary fares, where the Council has no statutory duties, are such that the Council is acting as an agent for the districts within East Sussex. As a result of this the only income and expenditure that the Council should record in the accounts is in respect of the fees charged for acting as the agent (£10k).
- 3.17 Therefore the gross income and expenditure figures currently shown in the Income and Expenditure account should be netted off. As these entries have net nil effect, the net position for the whole account (surplus) is not affected.

Asset impairments

- 3.18 As part of its annual review of asset valuations, the Council has completed a number of revaluations of its land and building assets. These revaluations are the completion of the five year rolling programme of revaluing all land and building assets in line with the Council's adopted valuation basis.
- 3.19 The revaluations performed in the year have, as in previous years, resulted in a number of downward movements in individual assets, these being largely attributable to the valuation basis being adopted. The treatment of such adjustments was the subject of discussion in June and in the current accounts the value of these movements (circa £8m) are currently being offset within the Capital Adjustment Account against the upward revaluations that have also been derived from this process.
- 3.20 Although we understand that the movements are considered to solely relate to the change in valuation basis, and that the current treatment is in line with the prior year, we have now determined that it is not fully in line with the SORP requirements for the accounts this year. This requires that such revaluation losses, where not offset by revaluation gains subsequent to 1 April 2007 on the same asset, should be charged to the Income and Expenditure account and then adjusted through the Statement of Movement on General Fund Balance as a charge to the Capital Adjustment Account.
- 3.21 This adjustment impacts on the surplus or deficit in the Income and Expenditure account, although there is no overall effect on the general fund surplus or deficit nor, therefore, on the burden on Council Tax payers.

Asset disposals – revaluation balances

- 3.22 During the course of the year the Council has disposed of a number of its assets. When this occurs there is a SORP requirement to ensure that any associated balances within the revaluation reserve, i.e. revaluation surpluses arising, are removed. This adjustment is required to ensure that, at any given point in time, the revaluation reserve only reflects the increase in asset values above the original depreciated historical cost for assets which the Council holds at that point in time.
- 3.23 Review of disposals has shown that revaluation balances in respect of the relevant assets sold in the period have not been removed and, as a result, the revaluation reserve still retains £3.463m in respect of revaluations on assets disposed during the year. This amount should, in line with SORP requirements, be removed from the revaluation reserve and charged to the Capital Adjustment Account.

Provisions

- 3.24 We have completed a detailed review of the provisions that the Council currently has, as disclosed within the statement of accounts. This review has indicated that, at present, the £800k provision for section 117 liabilities only has one known case (for £125k) that would be set against the balance provided.

- 3.25 We are aware that this provision was created some time ago and has been subject to reduction as cases have been identified and resolved. We have yet to be provided with documentation that the provision has been reviewed and re-assessed to confirm the validity of its value. We will provide a verbal update to Members when we present the report.

Pooled budgets

- 3.26 The Council are involved with a number of pooled budgets and have made the necessary disclosures about this involvement within the statement of accounts. However, our review of associated costs has indicated that the full accounting entries have not been recorded within the accounts for the year to 31 March 2008 and that appropriate additional entries still need to be made.
- 3.27 We have discussed the need for an adjustment with the Council, and have received an outline of the journal needed to input the necessary figures into the statement of accounts and show the correct position in respect of costs specific to the Council. These adjustments have no impact on the position of the Income and Expenditure account and General Fund.

Pension balances

- 3.28 As the administering body for the East Sussex County Pension Fund, the Council is required to include within its accounts a number of disclosures in respect of the performance of the Fund as a whole. These disclosures include an income and expenditure account and some supporting analysis of the key balances and transactions. We are required to audit these disclosures as they form part of the statement of accounts of the Council, as required by the SORP, and are covered by our audit opinion.
- 3.29 Our audit work identified that there are some differences between the figures within the accounts and those recorded within the pensions system. We have been unable to conclude which is the correct position as a detailed reconciliation of the figures outlining the reasons for the differences have not been completed. Although the differences in balances are not significant on an individual basis, the Council should ensure that it completes reconciliations between systems (SAP and Axise) to ensure that any differences are adequately explained.
- 3.30 In addition, when reviewing the valuations ascribed to the year end investments held by individual fund managers, we noted some differences between reports produced by the custodian (Northern Trust) and the information provided by the fund managers. Whilst some differences are likely, one of those identified by the custodian was in excess of £3m, this representing approximately 0.2% of the total fund value. Discussions indicated that these had been resolved by the custodian at the time but evidence from the custodian has only just been received.

Adequacy of disclosures

- 3.31 During the audit we identified a few disclosure issues which had not been presented in accordance with the 2007 SORP. Appropriate amendments to the accounts have been suggested in respect of these issues, which primarily relate to the following:
- further analysis of the movements on assets under construction, where additions (£12.4m) are currently being netted off against the value of assets completed (£9.5m)
 - amendment of disclosures within the Statement of Movement on General Fund Balance to properly disclose the pension related adjustments in line with the requirements of the SORP (employers' contributions have been netted off against the FRS 17 charge in one line of note 17)
 - amendments to the actuarial disclosures on the pension information (FRS17), to reflect the revised valuation completed by the pension fund actuary
 - some additional disclosures in respect of the pension fund to ensure compliance with the requirements of the Local Government SORP, these previously having been made in the pension fund annual report

Letter of representation

3.32 The draft letter of representation has been attached as Appendix A. We do not anticipate any changes being required in clearing the remaining issues before providing our opinion on the Council's Statement of Accounts.

Unadjusted misstatements

3.33 We are not aware of any unadjusted misstatements in the accounts.

Audit report

3.34 At the time of drafting this report we are proposing to issue an unqualified opinion on the Statement of Accounts in accordance with the statutory deadline of 30 September. However, there are some outstanding matters on the audit that could have an impact on our proposed audit report. These are:

- completion of our review of the accounting treatment of the waste PFI contract
- receipt of the final confirmation letters to confirm both year end investments and bank account balances
- a number of specific queries arising from our internal review process, although none are significant

3.35 We will provide a verbal update on these matters at the presentation of this report to the Governance Committee.

Accounting and internal control systems

3.36 We have reviewed the key financial systems in place across the Council, which contribute to the preparation of materially accurate accounts, to assess the extent to which we can place reliance on them for this purpose.

3.37 Under Auditing Standards we also have a responsibility to give specific consideration to the potential risk of material misstatement in the accounts due to fraud and error, including the risk of fraudulent financial reporting.

3.38 The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect material fraud and corrupt practices lies with management and those charged with governance.

3.39 Our approach to the audit of the financial systems has involved considering key control areas for each system and satisfying ourselves that they are operating as intended and are sufficient to prevent material misstatements within the accounts. In assessing the reliability of systems as a basis for providing financial information, systems notes were prepared for each financial system and we have evaluated the controls within those systems, with particular focus on assessing whether the controls in place to mitigate significant risks are suitably designed and operating as intended to meet their objective.

3.40 Our audit approach seeks to place reliance on internal audit in the areas of systems and controls. In order to decide whether we are able to do this we:

- reviewed Internal Audit's working papers and reports
- considered the robustness of the key financial systems on the evidence of this work
- rely on Internal Audit's evaluation of controls and re-perform a sample of their testing of the effectiveness of controls, to ensure that their conclusions are soundly based
- considered Internal Audit's review of the effectiveness of internal control.

We concluded we were able to place reliance on internal audit.

- 3.41 In order to identify the fraud risks, and the controls you have put in place to mitigate those risks, we have:
- discussed your anti fraud and corruption arrangements with officers and those charged with governance
 - considered the extent to which the work of Internal Audit is designed to detect material misstatements in the accounts arising through fraud
 - made inquiries regarding instances of actual fraud you have identified.

Conclusion

- 3.42 The Council's key financial systems are generally adequate as a basis for preparing the Statement of Accounts and no significant control weaknesses were identified as a result of our audit.
- 3.43 However, the following control weakness was noted in respect of the Childrens Social Care finance system, Carepay, and these required additional audit effort in providing our opinion on the accounts.
- 3.44 The work completed by Internal Audit on Carepay identified a number of control weaknesses, since resolved, these being in respect of controls over;
- the staff who are able to commit the Council to expenditure
 - ensuring invoices are only processed following receipt of the relevant goods or services
 - ensuring payments are only made for approved invoices.
- 3.45 As a result, we were unable to rely on controls and had to perform additional work to obtain necessary assurances over the figures included within the accounts. We have not identified any issues arising from this additional work.

Matters required to be reported by other auditing standards

- 3.46 There are no other matters arising from our work that we are required by other auditing standards to bring to the attention of those charged with governance.

Other audit matters of governance interest

Annual Governance Statement

- 3.47 In June 2007 CIPFA, in conjunction with the Society of Local Authority Chief Executives (SOLACE), published Delivering Good Governance in Local Government: Framework. This framework, and the accompanying guidance notes, replaces the previous CIPFA/SOLACE framework, Corporate Governance in Local Government – A Keystone for Community Governance: Framework, which was published in 2001.
- 3.48 The framework applies to all local government bodies and is directly relevant to a number of use of resources Key Lines of Enquiry (KLOE), in particular the three internal control KLOE.
- 3.49 Of particular importance is the introduction through the CIPFA/SOLACE framework, from 2007/08, of an integrated "annual governance statement". This subsumes the requirements of Regulation 4(2) of the Accounts and Audit Regulations 2003 (as amended by the Accounts and Audit (Amendment)(England) Regulations 2006) for the production of a statement on internal control (SIC).
- 3.50 The framework reflects the Commission's own definition of corporate governance as:
"... about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, open, honest and accountable manner.

It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities."

- 3.51 The Council has a responsibility to publish a Governance Statement, including the outcome of a review of its effectiveness, with its 2007/08 Statement of Accounts.
- 3.52 We have reviewed the Annual Governance Statement and the supporting review of effectiveness that has been undertaken and we are satisfied that the Statement is not inconsistent with the evidence provided in the review of effectiveness and our knowledge of the Council.

4 Use of Resources

- 4.1 The Audit Commission's Code of Audit Practice requires us to be satisfied that proper arrangements have been made by the Council to secure economy, efficiency and effectiveness in the use of resources (value for money).

Value for money conclusion

- 4.2 Our VFM conclusion is based on considering the results of the Use of Resources Key Lines of Enquiry (KLoE) assessment and the results of the Data Quality management arrangements (Stage 1) assessment. The conclusion also draws on the results of local risk based audit work, as well as consideration of the Council's processes underpinning its review of the effectiveness of its controls as described in the Annual Governance Statement.
- 4.3 The Use of Resources KLoE assessment work has been sufficiently completed to enable the delivery of the VFM conclusion and will be finalised in November 2008, as required by the Audit Commission's timetable for quality assurance. A detailed report of findings will be provided to Officers later in the year.
- 4.4 The Data Quality management arrangements assessment has been sufficiently completed to enable the delivery of the VFM conclusion and will be finalised in October 2008, as required by the Audit Commission's timetable. A detailed report of findings will be provided to Officers later in the year.
- 4.5 This work will contribute to forming our overall conclusion on your arrangements to secure economy, efficiency and effectiveness in the use of resources, as audited bodies are required to reach expected minimum requirements in each of the 12 VFM conclusion criteria reviewed, to achieve an unqualified opinion.
- 4.6 We will provide a separate report to members on matters arising from the conclusion of our work on use of resources KLOEs and the local use of resources risks identified in our audit plan.

Proposed conclusion

- 4.7 We have received an objection to the accounts, together with three complaints from local electors. All of these primarily concern use of resources, rather than accounts, issues, although the complaints are primarily of a specific nature and, therefore, we have concluded that we can still give an unqualified use of resources conclusion.
- 4.8 A draft conclusion is included in Appendix B.

Closure of the audit

- 4.9 Because of the objection referred to above, which we are still considering, we cannot currently close the audit for 2007/08. We will update members on this as we reach our conclusion.

Statutory report on the 2007/08 Best Value Performance Plan

- 4.10 The audit of the Best Value Performance Plan 2007/08 ("BVPP") was completed in 2007 and we reported that the Council had prepared and published its BVPP in all significant respects in accordance with section 6 of the Local Government Act 1999 and statutory guidance issued by the Government. An unqualified opinion was issued on 19 December 2007.
- 4.11 No recommendations have arisen from this work.

5 Fee information

- 5.1 We are required to disclose an analysis of the planned and actual audit fees for the year and provide an explanation for any significant variations for each element of our work.
- 5.2 The proposed audit fees were set out in the Annual Audit and Inspection Plan 2007/08:

Audit plan 2007/08	Planned fees £
Code of Audit Practice	
Accounts	77,400
Use of Resources	50,950
Planning and reporting	44,640
Subtotal audit	175,000
Inspection	92,504
Total audit and inspection	267,504
Grants	60,000
Questions and objections	-
Total	327,504

- 5.3 Until we have concluded our audit we are unable to provide confirmation on the final level of actual fees for 2007/08. We will discuss any changes with officers and if necessary subsequently with members.
- 5.4 A number of the grant claim audits are currently in progress or do not require certification until 31 December 2008 and therefore the actual fee remains an estimate of the expected final position.

Appendix A: Draft letter of representation

PKF (UK) LLP
Farringdon Place
20 Farringdon Road
London
EC1M 3AP

26 September 2008

Dear Sirs

Statement of Accounts of East Sussex County Council for the year ended 31 March 2008

1 Representations of the Deputy Chief Executive and Director of Corporate Resources

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of other officers and members of the Council, the following representations given to you in connection with your audit of the Council's Statement of Accounts.

2 Responsibility for the Statement of Accounts

I acknowledge as the Deputy Chief Executive and Director of Corporate Resources and s151 Officer my responsibilities for the Statement of Accounts.

3 Completeness of information

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 committee meetings (held during the year and up to the date of this letter) have been made available to you.

4 Internal control

I acknowledge my responsibility for the design, implementation and maintenance of internal control relevant to the preparation and presentation of the Statement of Accounts that are free from misstatement, whether arising from fraud or error.

5 Fraud

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

I am not aware of any fraud or suspected fraud affecting materially the Statement of Accounts, nor have any allegations of fraud or suspected fraud been communicated to me by employees, former employees, councillors, regulators or others which might affect materially the Statement of Accounts.

6 Compliance with law and regulations

I am not aware of any possible or actual instances of non-compliance with laws or regulations which are central to the Council's ability to carry on business or which would otherwise have a potentially material effect on the Statement of Accounts.

7 Transactions with related parties

I confirm that I have put in place appropriate arrangements to identify related party transactions.

I am satisfied that the disclosure in the Statement of Accounts of related party transactions is appropriate and complete and contains all the elements necessary for an understanding of the Statement of Accounts.

8 Contingent liabilities

I am not aware of any undisclosed significant contingent liabilities, including pending claims, proceedings or litigation involving the Council.

9 Uncorrected misstatements

You have brought to my attention uncorrected misstatements in the Statement of Accounts as listed in Appendix 1 to this letter. I do not wish to correct these misstatements as I consider them to be immaterial to the view given by the Statement of Accounts.

10 Pension fund assumptions

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

- | | |
|---|------|
| • Rate of inflation | 3.6% |
| • Rate of increase in salaries | 5.1% |
| • Rate of increase in pensions | 3.6% |
| • Rate for discounting scheme liabilities | 6.9% |

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

11 Subsequent events

There have been no events since the balance sheet date which necessitate revision of the figures included in the Statement of Accounts or inclusion of a note thereto where revisions of the Accounts have not been made or notes not included. Should any material events occur, which may necessitate revision of the figures included in the Statement of Accounts or inclusion of a note thereto, I will advise you accordingly.

Yours faithfully

Sean Nolan
Deputy Chief Executive and Director of Corporate Resources

Representations of the Council**1 Responsibility for the Statement of Accounts**

We acknowledge our responsibilities to make arrangements for the proper administration of the Council's financial affairs and to approve the Statement of Accounts.

2 Uncorrected misstatements

We have considered the uncorrected misstatements in the Statement of Accounts as listed in Appendix 1 to this letter together with the explanations provided by the Deputy Chief Executive and Director of Corporate Resources for not correcting these misstatements, and we consider them to be immaterial to the view given by the Statement of Accounts.

3 Annual Governance Statement

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

Yours faithfully

**Councillor Peter Jones
Chair of the Governance Committee**

Signed on behalf of the Council

Appendix B: Draft audit opinion

Independent auditors' report to the Members of East Sussex County Council

Opinion on the accounting statements

We have audited the Authority accounting statements, pension fund accounts and related notes of East Sussex County Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority accounting statements comprise the Authority Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority Balance Sheet, the Authority Statement of Total Recognised Gains and Losses, the Authority Cash Flow Statement and the related notes. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The Authority accounting statements and pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of East Sussex County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Deputy Chief Executive and Director of Corporate Resources and auditor

The Deputy Chief Executive and Director of Corporate Resources responsibilities for preparing the financial statements, including the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the Authority accounting statements, pension fund accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Authority accounting statements and the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

We review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

We read other information published with the Authority accounting statements, pension fund accounts and related notes and consider whether it is consistent with the audited Authority accounting statements. This other information comprises the Explanatory Foreword and the Pension Fund Annual Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Authority accounting statements, pension fund accounts and related notes. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority accounting statements, pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority accounting statements, pension fund accounts and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Authority accounting statements, pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Authority accounting statements, pension fund accounts and related notes.

Opinion

In our opinion:

- The Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended; and
- The pension fund accounts and related notes present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial transactions of the Pension Fund during the year ended 31 March 2008, and the amount and disposition of the fund's assets and liabilities as at 31 March 2008, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Signature: _____ Date: _____

Name: PKF (UK) LLP
Farringdon Place, 20 Farringdon Road, London, EC1M 3AP

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditor's Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, we are satisfied that, in all significant respects, East Sussex County Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008.

Best Value Performance Plan

We issued our statutory report on the audit of the authority's best value performance plan for the financial year 2007/08 on 19 December 2007. We did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Certificate

The audit cannot be formally concluded and an audit certificate issued until we have completed our consideration of matters brought to our attention by local authority electors. We are satisfied that these matters do not have a material effect on the financial statements.

Signature: _____

Date: _____

Name: PKF (UK) LLP
Farringdon Place, 20 Farringdon Road, London, EC1M 3AP

Appendix C: Reports issued by PKF in respect of 2007/08

Annual Audit and Inspection Plan	June 2007
Opinion on 2007/08 BVPP	19 December 2007
Data Quality report	March 2008
Final report to those charged with governance	September 2008