

Report to: **Governance Committee**

Date: **4 September 2009**

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

Title of report: **Independent Auditor's (PKF) Annual Governance Reports and Statement of Accounts 2008/09**

Purpose of report: **To present the Annual Governance Report, and to report an expected unqualified opinion on the 2008/09 Statement of Accounts**

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## **RECOMMENDATIONS**

**To:**

- (1) Note the Independent Auditor's (PKF) Annual Governance Report on ESCC Accounts.**
  - (2) Note the Independent Auditor's (PKF) Annual Governance Report on Pension Fund Accounts**
  - (3) Authorise the Deputy Chief Executive and Director of Corporate Resources to sign the formal Letter of Representation to PKF (UK) LLP.**
  - (4) 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 is obliged to produce an Annual Governance Reports for East Sussex County Council Accounts and Pension Fund Accounts (Appendix 1 and 2), 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.

2.2 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.

2.3 Our Independent Auditor's - PKF (UK) LLP plans to produce a Relationship Manager Letter in November 2009, this replaces and expands upon the Annual Audit and Inspection Letter produced in previous years.

2.4 A change to the governance, accountability and audit framework for local government pension funds is a new requirement for administrating authorities to produce a pension fund annual report and for the pension fund audit to be separate from the audit of the Council's accounts.

### **3. Changes to ESCC Statement of Accounts**

3.1 The Governance Committee formally approved the draft Statement of Accounts at its meeting on 23 June 2009, 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. The Regulations require me to report on changes to the accounts before they can be published.

3.2 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.

3.3 As in any year, there are some adjustments to correct non-material errors and omissions, as a result of the audit work, but also changes to reflect more appropriate presentation in some cases as discussed further with the Auditor. Issues arisen from normal audit work has been noted, discussed, and resolved as stated in Para 3.19 to 3.32 of the report to those charged with governance. The Auditor has not felt the need to make any formal recommendations.

3.4 The revised set of accounts reflecting all adjustment described above is attached as Appendix 3.

#### **4. Changes to Pension Fund Accounts**

4.1 The Regulations require me to report on changes to the accounts before they can be published, and again 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. Issues arisen from normal audit work has been noted, discussed, and resolved as stated in Para 3.11 to 3.12 of the report to those charged with governance.

#### **5. Publication of Statement of Accounts**

5.1 The legal deadline for publishing the 2008/09 accounts is the end of September 2009. The auditors have completed their work, and now require only a Letter of Representation (Appendix A 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

Local Members: All  
Background Docs: None



Accountants &  
business advisers

# **East Sussex County Council**

## **Annual Governance Report 2008/09**

August 2009

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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 We report to you in accordance with the provisions of International Auditing Standard 260, which requires us to report to “those charged with governance”, prior to issuing our opinion on the financial statements, and in accordance with the Audit Commission Code of Audit Practice prior to giving 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
<b>Accounts</b>	
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.
Financial statements	<p>The Accounts presented for audit have been adjusted for:</p> <ul style="list-style-type: none"> <li>• The inclusion of the gross amount (not net as required) in respect of Concessionary Bus fares. Both income and expenditure within the costs of services analysis was overstated by £25.5m (nil net effect)</li> <li>• Changes to the presentation of comparative figures relating to the Voluntary Aided Schools adjustment.</li> <li>• Changes to the Balance Sheet disclosure of government capital grant income received in advance of being applied.</li> </ul> <p>Two non-trivial, but not material, differences have been identified and not corrected and this has been detailed in Appendix B.</p> <p>Some areas of work are still outstanding at the time of drafting this report. Should these result in any significant issues, we will give an oral or written update to Members.</p> <p>We are satisfied that the Annual Governance Statement (AGS) 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 financial statements.</p>
<b>Use of resources</b>	
Use of resources assessment	Our provisional assessment in relation to our work on our use of resources assessment work which underpins our VFM conclusion is that the Council is at least performing adequately in respect of managing finances, governing the business and managing resources.
VFM conclusion	We anticipate issuing an unqualified value for money conclusion.

## Acknowledgement

- 1.3 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 This report summarises the results of our audit work completed to date in respect of the Accounts and arrangements for securing economy, efficiency and effectiveness in use of resources for the year ending 31 March 2009.
- 2.2 Our report is presented to Members in accordance with the provisions of International Auditing Standard 260 ("ISA 260") which requires us to report key findings from the audit to "those charged with governance", prior to issuing our opinion on the Accounts and value for money conclusion.
- 2.3 This report does not deal with the accounts of the East Sussex Pension Fund contained within the Statement of Accounts of East Sussex County Council. As previously notified, we are preparing a separate report to those charged with governance of the Fund on matters arising from our audit of it.
- 2.4 We would highlight that in this report we do not provide a comprehensive statement of all weaknesses that may exist in the accounting and control systems, but only those matters which have come to our attention as a result of the audit procedures performed. We have only restated recommendations previously raised by Internal Audit if, because of their significance, we consider they warrant reinforcement.

### Fee outturn

- 2.5 The Audit Commission's *Standing Guidance for Auditors* requires us to report the outturn fee position for the year against the budgeted fee included within your Annual Audit and Inspection Plan. The table below sets out this analysis:

Audit plan 2008/09	Planned fees £	Actual fees £
<b>Code of Audit Practice</b>		
Accounts	74,400	74,400
Use of Resources	55,650	55,650
Planning and reporting	45,800	45,800
<b>Subtotal audit</b>	<b>175,850</b>	<b>175,850</b>
Grants (estimate)	30,000	30,000
Questions and objections	-	33,000
<b>Total</b>	<b>£205,850</b>	<b>£238,850</b>

- 2.6 The fees in relation to the questions and objection relate to two objections we received related to the 2007/08 Accounts. Please refer to Section 5.
- 2.7 The grant claim audits are currently in progress or do not require certification until later in the year and therefore the actual fee remains an estimate of the expected final position.

### Independence

- 2.8 We set out a statement relating to our independence in the 2008/09 Audit and Inspection Plan. Since the Plan was presented our firm has been asked to audit the financial model of one of the final bidders for the Age Well PFI contract. It is permitted under the Audit Commission Standing Guidance for auditors to perform such work subject to agreement of the audited body which has been given and subject to notification to the Commission which we will do if the bidder is successful and therefore the work performed. We can confirm that we remain independent for the purposes of our audit.

## 3 Accounts

### Requirements

- 3.1 We are required to provide an opinion on whether your Accounts present fairly the financial position of the Council and its income and expenditure for the year, and whether they have been prepared properly in accordance with appropriate legislation and relevant accounting guidance.
- 3.2 We carry out procedures designed to obtain sufficient, appropriate audit evidence to determine with reasonable confidence whether the Accounts are free from material misstatement and evaluate the overall presentation in order to ascertain whether they have been prepared in accordance with relevant legislation and accounting standards.
- 3.3 We identify the principal areas of risk of material misstatement from our knowledge of the Council, of the environment in which it operates and from discussions with management. We address these risks by carrying out appropriate audit procedures.
- 3.4 We apply an appropriate level of materiality and, as such, the audit cannot be relied upon to identify all risks or potential and actual misstatements. Materiality is the expression of the relative significance or importance of a particular matter in the context of the Accounts as a whole.
- 3.5 We set a triviality level of £50,000 for the 2008/09 Accounts audit and have not reported to you any matters arising below this level.

### Accounts risks

- 3.6 The findings from our review of Accounts risks identified in our Audit Plan are summarised as follows:

Risk area	Overall conclusion
<b>SORP 2008 adjustments</b>	We discussed the key changes arising from the 2008 SORP with officers and agreed appropriate accounting treatments and entries during the course of our audit.
<b>Upgrade of SAP (core financial system)</b>	As part of our systems audit we have considered the upgrade that took place during the 2008/09 financial period. This has included review of the work of the project management board which acted as a control over the process and the work of internal audit to monitor the transition. Internal audit also carried out testing on the effectiveness of the upgrades which received a positive conclusion and which we have reviewed.  We have not identified any issues arising from our work.

- 3.7 In our 2009/10 Audit Fee letter reported to those charged with governance we also identified an additional standard audit risk applicable to all audits of the risk of management override of controls. We carry out a standard programme of work to identify any such instances and our work did not identify any instances of this.
- 3.8 A future risk in relation to the Accounts of the Council relates to the need for a successful transition to International Financial Reporting Standards (IFRS). The date of transition to IFRS is 1 April 2009 and we will report further on this during 2009/10. However, we are aware the Council has a project in hand to deal with the transition.

## Reporting to those charged with governance

- 3.9 In accordance with the requirements of International Standard on Auditing 260 ("ISA 260"), auditors are required to communicate relevant matters relating to the audit with those charged with governance. 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
  - **uncorrected misstatements**
  - expected modifications to the **audit report**
  - material weaknesses in **accounting and internal control systems** identified during our work
  - **matters required to be reported by other auditing standards**
  - any **other audit matters of governance interest**.
- 3.10 Our comments in each of these areas are set out below:

## Accounting practices and financial reporting

### *Application of accounting policies*

- 3.11 The key changes introduced by the 2008 SORP were:
- the replacement of deferred charges with revenue expenditure funded from capital under statute
  - the prohibition of revaluing fixed assets on disposal
  - the clarification of Financial Reporting Standards 25, 26 and 29 relating to the accounting treatment for financial instruments
- 3.12 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.

### **Voluntary aided schools**

- 3.13 The Council changed its accounting policy in the year in respect of voluntary aided schools. We identified this in last year's report as a matter we were discussing with officers in view of a trend amongst other councils to remove such assets from the balance sheet. Removal has been on the grounds that the church authorities are the legal owners of the property and the substance of councils interest in the assets in terms of controlling future economic benefits from the assets is not sufficient, on balance, to override this.
- 3.14 SORP 2008 clarified the issue further for the first time and, in particular, clarified that to keep assets in the councils balance sheets benefits would have to accrue directly to the council, rather than wider benefits such as the fact that the existence of voluntary aided schools reduces the need for the councils themselves to establish community schools.
- 3.15 In discussion with officers it was agreed that voluntary aided schools should be removed from the councils accounts as a change of policy and this has been effected resulting in a reduction in the assets and net worth of the Council at 31 March 2008 of £39.7m. We concur with this treatment.

**Review of carrying value of land and property**

- 3.16 The other matter regarding the application of accounting policies we wish to draw to the attention of those charged with governance is the impairment review carried out by the Council in the year. The Council's policy is, as permitted by the SORP, to revalue its assets over a five year cycle. However, the SORP requires that, where there is a possibility that asset values have changed significantly between valuation, a review is carried out and estimated changes made between valuation dates.
- 3.17 In view of the potential impact of the recession on property values in 2008/09 the Council commissioned their external valuers to review the potential effect and advise on adjustments which may be required to asset values. The valuers recommended changes by type of asset which ranged from 16% for residential property (of which the Council has very little) to 2% for libraries and other specialised assets which are valued on a depreciated replacement basis and therefore change in building costs is the relevant criterion. The Council made the resulting adjustments to all assets and, in total, values were adjusted downward by £32m. Of this, £3.8m was taken out of the balance standing to the revaluation reserve for such assets and the balance of £28.2m charged to services in the Income and Expenditure Account as required by the SORP. The impact of this impairment change on the cost of services has been disclosed in Note 17 to the accounts.

**Other impacts of recession**

- 3.18 The Council has also, in response to the continued economic downturn, performed a review of the position and impact on all aspects of its operation. This has identified some further areas for the Council to be aware of and consider within its accounting, but none of these are significant enough to impact on the final Accounts.

***The accounts preparation process***

- 3.19 The draft Accounts were approved by Members on 23 June 2009 which was in advance of the deadline of 30 June 2009. As part of our planning for the audit, we prepared a detailed document request which outlined the information that we would require to complete the audit. The Council provided us with files of comprehensive working papers and draft accounts on 29 June 2009, which we were satisfied were of a high quality.

***Testing of transactions and balances***

- 3.20 As part of our audit approach, all material balances were subject to audit testing and agreement, on a sample basis, to supporting documentation. The matters which arose from the audit process are set out below.

**Voluntary aided schools**

- 3.21 We note above the change of policy to de-recognise voluntary aided schools. The nature of the change is such that it impacts on a number of years of account, as the assets should now be treated as if they were never recorded in the Council's balance sheets.
- 3.22 The SORP requires restatement of the comparative balance sheet in the current year's Accounts and the opening balances on notes but permits the comparative Income and Expenditure Account not to be restated.
- 3.23 The draft Accounts presented for audit reflected the change in this manner except that the comparative Balance Sheet was not restated with the write out adjustment therefore being taken in the Income and Expenditure Account. The Accounts have been amended in this respect. We had been discussing the accounting entries needed to effect this change with officers prior to the year end and acknowledge that the need to amend the Accounts arose solely because of a misunderstanding about the nature of the agreement we had reached regarding this one aspect of the restatement.

### **Income in advance**

- 3.24 Included within the Balance Sheet is an amount reflecting "Income in Advance", this being recorded as a current liability. The amount includes capital contributions received from government and other sources towards significant projects, such as the Building Schools for the Future (BSF) project in Bexhill.
- 3.25 The amounts received have previously been recorded as income in advance included in current liabilities in the Balance Sheet (within one year) until the project is completed and becomes operational, at which point the income was transferred to either the Government Grants Deferred or Capital Contributions account within the balance sheet (capital projects) or the Income and Expenditure account (revenue projects).
- 3.26 On review it was noted that, primarily because of the very large amount received in advance from government during 2008/09 for the BSF project (£21m at 31 March 2009), amounts of government grants received in advance which would not be utilised within one year had become material. It was therefore agreed with officers that, to reflect the nature of this now material type of balance, new Balance Sheet disclosure categories of Government Grants and Contributions Unapplied would be created and relevant amounts included here in the long term liabilities part of the Balance Sheet rather than Income in Advance.
- 3.27 When the asset the grant is financing comes into use, the balance will be transferred to the Government Grants and Contributions Deferred account and amortised over the life of the related asset in accordance with the Council's existing policy. The same disclosure will be applied for contributions, though those are not in themselves material balances. The process for revenue income received in advance is unchanged.

### **Concessionary bus fares**

- 3.28 Review of the levels of income and expenditure for the year identified an issue with the treatment of amounts relating to concessionary fares. The disclosure in the draft accounts shows the gross position with the Council having recorded £25.2m of income and £25.2m of expenditure.
- 3.29 However, as agreed with officers during the 2007/08 audit, arrangements for concessionary fares (where the Council currently has no statutory duties) are such that the Council is acting as an agent for the districts within East Sussex in processing payments and has no statutory or economic interest in the amounts in question. As a result only income and expenditure in respect of the fees charged for acting as the agent (£600k) should be recorded in the Accounts.
- 3.30 Therefore the income and expenditure figures currently shown in the Income and Expenditure account have been adjusted to ensure only the agent fees remain. As these entries have net nil effect, the net position for the whole account (surplus) is not affected.

### ***Disclosure and presentational matters***

- 3.31 We reviewed the adequacy of disclosures made in the Accounts. The principal matter which arose where we agreed an additional disclosure with officers was the disclosure of the complaint to the European Commission in relation to the waste contract extension which took place in 2007/08 and which is disclosed in Note 36 to the Accounts.
- 3.32 There was one other minor presentational matter where we agreed it was not necessary to make an adjustment - the grossing up within the fixed asset Note 19 to the accounts of the depreciation written back of £1.8m in the impairment write down referred to above in the depreciation part of the note.

## Letter of representation

- 3.33 The draft letter of representation has been attached as Appendix A. We do not anticipate any changes being required before providing our opinion on the financial statements. There are no non standard representations.

## Uncorrected misstatements

- 3.34 We set out at Appendix B the non-trivial misstatements which we noted during the course of our audit and which management do not intend to adjust. We will update this in advance of both the Audit and Best Value Overview and Scrutiny Committee and the Governance Committee meetings should we identify any additional items during the final clearance of outstanding issues.
- 3.35 We will obtain written representation, both from the Deputy Chief Executive and Director of Corporate Resources and on behalf of the Governance Committee, of the reasons for not making the amendments noted in Appendix B.

## Audit report

- 3.36 At the date of drafting this report we are still in the process of completing our audit work which is mainly clearing queries which have been raised from our internal reviews and completing some aspects of our work on systems. Under the rules of our profession this audit also needs a review by an independent partner which is yet to be completed. If any matter of significance arises from these processes, we will provide an oral or written update to those charged with governance. Subject to satisfactory clearance of these matters we anticipate giving an unqualified audit opinion.
- 3.37 We will provide an oral update on these outstanding issues at the Audit and Governance Committees.

## Accounting and internal control systems

- 3.38 We have reviewed the key financial systems, which contribute to the preparation of materially accurate financial statements, to assess the extent to which we can place reliance on them for this purpose. 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 financial statements
  - the robustness of your Accounts preparation processes.
- 3.39 In assessing the reliability of systems as a basis for providing financial information that is free from material misstatement, we prepared or reviewed systems notes for each financial system and we evaluated the controls within those systems, with particular focus on assessing whether any relevant key controls in place are suitably designed and operating as intended to meet their objective.
- 3.40 Your key financial systems are:
- Main accounting
  - Cash and bank
  - Payments and creditors
  - Income and debtors
  - Information technology
  - Payroll and employment costs
  - ABACUS (social services transactions)
  - Carepay
- 3.41 We also have a responsibility to give specific consideration to the potential risk of material misstatement of your Accounts due to fraud and error, including the risk of fraudulent financial reporting. This requires us to:
- review internal controls that are designed to prevent, or detect and correct, misstatements in the accounts

- review the arrangements for preparing the 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 financial Accounts.
- 3.42 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.
- 3.43 Where possible, we have placed reliance on Internal Audit's work and thereby avoided unnecessary duplication of audit effort. To ensure this approach was valid, we have undertaken the following:
- reviewed the working processes and independence of Internal Audit
  - reviewed Internal Audit's working papers and reports
  - re-performed, on a sample basis, Internal Audit's evaluation of controls and their testing of the effectiveness of controls, to ensure that their conclusions are soundly based.
- 3.44 We were satisfied with the processes and independence of Internal Audit and found their work to be of a high quality and therefore established we could rely upon their work.
- 3.45 In order to identify risks of fraud, and the controls you have put in place to mitigate those risks, we have:
- discussed your anti-fraud and anti-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 enquiries regarding instances of actual fraud you have identified.

### Issues arising

- 3.46 We would like to draw to your attention the following issue arising from our review of the key financial systems:

#### **Carepay**

- 3.47 The work completed by Internal Audit on Carepay has again identified an issue with the design of the system in that the system does not enforce segregation of duties between those authorising and making payments and there are limited controls over access. The work performed did, however, identify an improvement over last year in the operation of the system. The work performed this year confirmed that, in practice, separate people authorised and made payments.
- 3.48 Additional work has been performed to obtain necessary assurances over the figures included within the Accounts. We have not identified any issues arising from this additional work.

### Conclusions

- 3.49 As a result of our work, we have concluded that the key financial systems are generally adequate as a basis for preparing the financial statements and no significant control weaknesses were identified as a result of our audit.

3.50 We are preparing a Memorandum to Officers on other matters arising from the detailed work on systems and any relevant matters arising from this will be reported in our Annual Audit Letter.

3.51 We did not identify any significant fraud risks that affected our audit programme for the Accounts.

### **Matters required to be reported by other auditing standards**

3.52 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***

3.53 The Council has a responsibility to publish an Annual Governance Statement, including the outcome of a review of its effectiveness, with its 2008/09 financial statements. It has also published a Statements Reporting Reviews of Internal Financial Controls.

3.54 We have reviewed the Annual Governance Statement (and the Statements Reporting Reviews of Internal Financial Controls) and the supporting review of effectiveness of the Annual Governance Statement that has been undertaken and we are satisfied that the Annual Governance Statement is not inconsistent with the evidence provided in the review of effectiveness or with our knowledge of the Council and the Statements Reporting Reviews are not inconsistent with our knowledge.

## 4 Use of resources

- 4.1 The Audit Commission's Code of Audit Practice ('the Code') requires us to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (sometimes referred to as Value for Money (VFM)) and to reach and report a conclusion on whether proper arrangements have been made. We refer to this as our VFM conclusion. The conclusion is reported in our Auditors' Report included in the Statement of Accounts.
- 4.2 We are also required to undertake a use of resources assessment, the results of which are used to inform our VFM conclusion. The conclusion also draws on (4.4 to 4.7 below) 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 internal controls as described in the Annual Governance Statement.

### Use of resources risks

- 4.3 The findings from our review of use of resources risks identified in our Audit Plan are summarised as follows. We will report on these matters in more detail in our Annual Audit Letter:

Risk area	Findings and Conclusion
<b>Age Well PFI</b>	<p>We have discussed the current position with officers, and reviewed supporting documentation related to the procurement process for the PFI scheme.</p> <p>The timetable for the project is such that key decision making is due to be completed in the 2009/10 financial period. We are satisfied that the Council is managing the process effectively.</p>
<b>Waste Contract and possible financial impact of Landfill Allowance Trading Scheme (LATS)</b>	<p>The Council has now dealt with the Judicial Review which sought to overturn planning permission for the Energy from Waste Plant. It has extended the contract with Veolia, thus resolving issues with them.</p> <p>Construction of the Energy from Waste Plant which is the core of the project has now commenced.</p> <p>As part of the final Accounts audit we have considered the adequacy of the Waste Reserve and have not identified any issues.</p>

### Use of resources assessment

- 4.4 The Audit Commission has specified that auditors review councils' arrangements to secure economy, efficiency and effectiveness against their "Specified Key Lines of Enquiry for 2008/09" contained in the use of resources framework. This assessment comprises three themes that focus on:
- sound and strategic financial management
  - strategic commissioning and good governance
  - the management of natural resources, assets and people.
- 4.5 The use of resources assessment scoring mechanism is defined as follows:

Score	Judgement	Conclusion
1	Failure to meet minimum requirements	Performing inadequately
2	Meets only minimum requirements	Performing adequately
3	Exceeds minimum requirements	Performing well
4	Significantly exceeds minimum requirements	Performing excellently

- 4.6 The results of this work are used in forming our overall conclusion on VFM, as the KLOE for the scored use of resources assessment also form the criteria for the VFM conclusion. A score of 1 for any criteria on each of the themes will normally result in a qualification of the VFM conclusion as the result is judged inadequate.
- 4.7 Whilst we have completed our work on the use of resources assessment, this is subject to review in the Audit Commission's national quality assurance process which will not be completed until 11 September. Therefore we cannot report the scores at this stage. However, we are satisfied that the Council will achieve a score of at least 2 on each theme and can therefore be said to be performing at least adequately for the purposes of our VFM conclusion. We will report more fully on the use of resources assessment in a separate report and also in our Annual Audit Letter.

### **Proposed value for money conclusion**

- 4.8 Our VFM conclusion on the basis of the above is that proper arrangements are in place to secure value for money.

## 5 Closure of the Audit

- 5.1 Once all of the work to complete the audit has occurred as well as providing an opinion on the Accounts and the VFM conclusion referred to above, auditors provide a certificate of closure of the audit. However, closure of the audit cannot take place if there are outstanding matters in relation to auditors' other legal responsibilities, including the right of local electors to make an objection to the accounts.
- 5.2 We received two objections in relation to the 2007/08 accounts:
- an objection in relation to the lawfulness of the Council's expenditure on parking infrastructure in relation to the Eastbourne parking scheme prior to getting Secretary of State approval to decriminalised parking arrangements.
  - an objection seeking a public interest report in relation to certain aspects of the value for money and other arrangements in the Integrated Waste Management Contract.
- 5.3 We considered these objections and decided not to uphold either of them. Statements of Reasons were issued on 13 and 14 May 2009 respectively. Following the issue of our conclusions and Statements of Reasons, we issued our Certificate to close the 2007/08 audit.
- 5.4 We will report further on these matters in our Annual Audit Letter.

## Appendix A: Draft letter of representation

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

XX September 2009

Dear Sirs

### **Financial statements of East Sussex County Council for the year ended 31 March 2009**

#### ***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 financial statements for the year ended 31 March 2009.

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

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

#### **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.

#### **Internal control**

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

#### **Fraud**

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

I am not aware of any fraud or suspected fraud affecting the financial statements, nor have any allegations of fraud or suspected fraud affecting the financial statements been communicated to me by employees, former employees, Councillors, regulators or others.

#### **Compliance with law and regulations**

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

#### **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 financial statements of related party transactions is appropriate and complete and contains all the elements necessary for an understanding of the financial statements.

#### **Contingent liabilities**

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

**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	3.1%
Rate of increase in salaries	4.6%
Rate of increase in pensions	3.1%
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.

**Fair value measurements and disclosures**

I am satisfied that the carrying value of land and buildings is a reasonable representation of their value at 31 March 2009. I confirm that East Sussex Pension Fund investments are carried out at an appropriate fair value.

**Subsequent events**

There have been no events since the balance sheet date which necessitate revision of the figures included in the financial statements or inclusion of a note thereto. Should any material events occur, which may necessitate revision of the figures included in the financial statements 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***

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

**Responsibility for the financial statements**

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

**Uncorrected misstatements**

We have considered the uncorrected misstatements in the financial statements as listed in Appendix I 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 financial statements.

**Annual Governance Statement**

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

Yours faithfully

**Peter Jones**  
**Leader of the Council**

Signed on behalf of the Council

Note: Appendix 1 referred to in this letter relates to Appendix B in this report

## Appendix B: Uncorrected misstatements

The table below details the potential differences recorded during the audit that have not been adjusted for within the financial statements. We consider the first matter below to be arising from an estimation difference rather than an error:

Uncorrected misstatements	Income Over/ (Under) £'000	Expenses (Over)/ Under £'000	Assets (Over)/ Under £'000	Liabilities Over/ (Under) £'000	Reserves (Over)/ Under £'000
Estimation error resulting from cancellation and reissue of an Adult Social Care invoice after year end. Initial value £464k, revised value £838k.	(374)		374		
Calculation error resulting from change in rate applied within the Model for accounting for the Peacehaven PFI asset value.		438	(438)		438 (438)
<b>Likely misstatements (extrapolation of errors)</b>					
None					
<b>Total net misstatements</b>	(374)	438	(64)		

## Appendix C: Draft audit report

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

#### Opinion on the Authority accounting statements

We have audited the accounting statements and related notes of East Sussex County Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement and the related notes. The accounting statements 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 49 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 auditors

The Deputy Chief Executive and Director of Corporate Resources responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the accounting statements 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 accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority and its income and expenditure for the 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 accounting statements and related notes and consider whether it is consistent with the audited accounting statements. This other information comprises the Foreword by the Deputy Chief Executive and Director of Corporate Resources, Trends, and the Statements of Reporting Reviews of Internal Financial Control. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounting statements 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 accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements 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 accounting statements 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 accounting statements 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 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Name: Richard Bint  
Partner, on behalf of PKF (UK) LLP  
London, UK

### Opinion on the pension fund accounts

We have audited the pension fund accounts for the year ended 31 March 2009 under the Audit Commission Act 1998. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The 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 49 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 auditors

The Deputy Chief Executive and Director of Corporate Resources' responsibilities for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the 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 pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, 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 read other information published with the pension fund accounts and related notes and consider whether it is consistent with the audited pension fund accounts. This other information comprises the Explanatory Foreword, Trends, and the Statements Reporting Reviews of Internal Financial Control published in the financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the 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 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 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 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 pension fund accounts and related notes.

### Opinion

In our opinion the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund's assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Name: Richard Bint  
Partner, on behalf of PKF (UK) LLP  
London, UK

### 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.

#### *Auditors' 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 May 2008 and updated in February 2009, 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 2009.

#### *Certificate*

We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Name: Richard Bint  
Partner, on behalf of PKF (UK) LLP  
London, UK



Accountants &  
business advisers

**East Sussex Pension Fund**

**Annual Governance Report**  
**2008/09**

August 2009

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## Appendices

- A Draft letter of representation
- B Uncorrected misstatements
- C Draft audit report

### **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 We report to you in accordance with the provisions of International Auditing Standard 260, which requires us to report to “those charged with governance”, prior to issuing our opinion on the Accounts.

## Findings and conclusions

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

Area of audit	Findings & Conclusion
<b>Accounts</b>	
Key financial systems	The <b>key financial systems are adequate as a basis for preparing the Accounts</b> and no significant control weaknesses were identified that impacted on our opinion.
Accounts	One material error caused by an error in Northern Trust’s valuation report was identified by officers and corrected.  A number of smaller changes were made to the Accounts.  There are no uncorrected misstatements.  <b>Subject to satisfactory completion of our outstanding work, we anticipate issuing an unqualified opinion on the accounts.</b>
<b>Use of Resources</b>	
Governance Review	No material issues were identified.

## Acknowledgement

- 1.3 We would like to thank the staff of East Sussex County Council, as the administering authority, for the co-operation and assistance provided to us during the audit.

## 2 Introduction

- 2.1 This report summarises the results of our audit work completed to date in respect of our audit of the Accounts of East Sussex Pension Fund for the year ended 31 March 2009.
- 2.2 The Accounts are contained within the Accounts of the administering authority, East Sussex County Council. This year for the first time as set out in our Audit Plan issued in January 2009 we are treating the Pension Fund audit as a separate engagement and as well as issuing a separate Audit Plan we are issuing this separate report to those charged with governance. We are also issuing a separate opinion on the Pension Fund Accounts within our overall audit opinion on the County Council's Accounts.
- 2.3 Additionally for the first time this year we are issuing a report on the Pension Fund Annual Report in which we will give an opinion on the consistency of the Accounts included in the Fund's Annual Report compared with the Accounts included in the County Council's Accounts.
- 2.4 Whilst we do not give a separate audit opinion on the Use of Resources of the Fund we have been asked by the Audit Commission to carry out a brief review of the key governance arrangements around the Fund.
- 2.5 Our report is presented in accordance with the provisions of International Auditing Standard 260 ("ISA 260") which requires us to report key findings from the audit to those charged with governance, prior to issuing our opinion on the Accounts.
- 2.6 We would highlight that in this report we do not provide a comprehensive statement of all weaknesses that may exist in the accounting and control systems, but only those matters which have come to our attention as a result of the audit procedures performed.

### Fee outturn

- 2.7 The Audit Commission's *Standing Guidance for Auditors* requires us to report the outturn fee position for the year against the budgeted fee included within your Annual Audit and Inspection Plan. The table below sets out this analysis:

Audit plan 2008/09	Planned fees £	Actual fees £
<b>Code of Audit Practice</b>		
Audit of Accounts for the Pension Fund	39,400	39,400
Reporting on the Annual Report	10,600	10,600
<b>Subtotal audit</b>	<b>50,000</b>	<b>50,000</b>
<b>Total</b>	<b>50,000</b>	<b>50,000</b>

### Independence

- 2.8 We set out a statement relating to our independence in the 2008/09 Audit and Inspection Plan. Since the Plan was presented our firm has been asked to audit the financial model of one of the final bidders for the Age Well PFI contract. It is permitted under the Audit Commission Standing Guidance for auditors to perform such work subject to agreement of the audited body which has been given and subject to notification to the Commission which we will do if the bidder is successful and therefore the work performed. We can confirm that we remain independent for the purposes of our audit.

## 3 Accounts

### Requirements

- 3.1 We are required to provide an opinion on whether the Accounts present fairly financial transactions of the Pension Fund 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. The Accounts are expected to be prepared in accordance with the Local Government SORP 2008.
- 3.2 We carry out procedures designed to obtain sufficient appropriate audit evidence to determine with reasonable confidence whether the Accounts are free from material misstatement and evaluate the overall presentation in order to ascertain whether they have been prepared in accordance with relevant legislation and accounting standards.
- 3.3 We identify the principal areas of risk of material misstatement from our knowledge of the Fund, of the environment in which it operates and from discussions with management. We address these risks by carrying out appropriate audit procedures.
- 3.4 We apply an appropriate level of materiality and as such the audit cannot be relied upon to identify all risks or potential and actual misstatements. Materiality is the expression of the relative significance or importance of a particular matter in the context of the Accounts as a whole.
- 3.5 We set a triviality level of £50,000 for the 2008/09 Accounts audit and have not reported to you any matters arising below this level.

### Accounts risks

- 3.6 The findings from our review of Accounts risks identified in our Audit Plan are summarised as follows:

Risk area	Overall conclusion
<b>Contributions – Application of New Regulations from 01.04.08</b>	Testing was carried out on contributions receivable for the year ended 31 March 2009, detailed proof in total of contributions from both employer and employee and substantive testing on contributions. No issues have been identified as a result of this work.
<b>Benefits Payable to pensioners – Application of New Regulations from 01.04.08</b>	Testing was carried out on benefits payable to leavers and also to continuing pensioners, a detailed proof in total on pensioner payroll amounts and substantive testing on amounts payable to leavers, we specifically included a sample of benefits payable under the new regulations. No issues have been identified as a result of this work.
<b>Valuation of Investments – private equity</b>	We have reviewed the AAF 01/06 and similar reports of the managers managing private equity funds and infrastructure assets to confirm that such assets have been valued at fair values.

### Reporting to those charged with governance

- 3.7 In accordance with the requirements of International Standard on Auditing 260 ("ISA 260"), auditors are required to communicate relevant matters relating to the audit with those charged with governance. 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
  - **uncorrected misstatements**
  - expected modifications to the **audit report**

- material weaknesses in **accounting and internal control systems** identified during our work
- **matters required to be reported by other auditing standards**
- any **other audit matters of governance interest**.

3.8 Our comments in these areas are set out below:

## **Accounting practices and financial reporting**

### ***Application of accounting policies***

3.9 The key changes introduced by the 2008 SORP were:

- Valuation of investment assets at bid value rather than at mid value.
- A number of accounting disclosure changes and additional disclosures necessary, particularly in relation to investment assets.

3.10 We liaised with officers in respect of the major changes to be made following the application of the SORP, and they have dealt with the implementation of these changes in an appropriate manner and assisted the audit in the review of the changes required.

### ***The Accounts preparation process***

3.11 The draft Accounts were approved by Members on 23 June 2009 which was in line with the deadline of 30 June 2009. As part of our planning for the audit, we prepared a detailed document request which outlined the information that we would require to complete the audit. Officers provided us with files of comprehensive working papers and draft Accounts on the date we had requested them for. They were of a high quality.

### ***Testing of transactions and balances***

3.12 As part of our audit approach, all material balances were subject to audit testing and agreement, on a sample basis, to supporting documentation. Issues arose in respect of the following matters, which we bring to your attention:

- One of the fund managers, UBS, overstated the value of investments in their year end return to Northern Trust by £10.553m. The fund was therefore overvalued by this amount and the net returns on investments by the same amount. This has been adjusted in the final version of the Accounts.
- The negative cash balance held with East Sussex County Council was included in current assets, but has now been moved to current liabilities in the final Accounts.
- An account raised as due to the Fund for Sussex Careers (now in liquidation) for the related deficit for their employees was cancelled, but the cancellation was done by increasing both assets and liabilities by the same amount (£3.6m). These two balances have now been removed from the final Accounts.
- We were satisfied with the adequacy of disclosure in line with the Local Government SORP, except that the Related Party Transactions note has been extended to disclose the value of employers contributions paid into the Fund by East Sussex County Council.

## **Letter of representation**

3.13 The draft letter of representation has been attached as Appendix B. We do not anticipate any changes being required before providing our opinion on the Accounts.

## **Uncorrected misstatements**

3.14 There are no uncorrected misstatements.

## Audit report

- 3.15 At the date of drafting this report we are still in the process of completing our audit work which is mainly clearing queries which have been raised from our internal reviews. Under the rules of our profession this audit also needs a review by an independent partner which is yet to be completed. If any matter of significance arises from these processes we will provide an oral or written update to those charged with governance. Subject to satisfactory clearance of these matters we anticipate giving an unqualified audit opinion.
- 3.16 We will provide an oral update on these outstanding issues at the Audit and Governance Committees.

## Accounting and internal control systems

- 3.17 We have reviewed the key financial systems, which contribute to the preparation of materially accurate Accounts, to assess the extent to which we can place reliance on them for this purpose. 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.
- 3.18 In assessing the reliability of systems as a basis for providing financial information that is free from material misstatement, we prepared systems notes for each financial system and we 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.
- 3.19 Your key financial systems are:
- Main accounting
  - Cash and bank
  - Benefits payable
  - Membership information
  - Contributions receivable
  - Investments and investment income
- 3.20 We also have a responsibility to give specific consideration to the potential risk of material misstatement of your Accounts due to fraud and error, including the risk of fraudulent financial reporting. This requires us to:
- review internal controls that are designed to prevent, or detect and correct, misstatements in the Accounts
  - review the arrangements for preparing the 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.
- 3.21 The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect material fraud and corrupt practices lies with officers and those charged with governance.
- 3.22 Where possible, we have placed reliance on Internal Audit's work and thereby avoided unnecessary duplication of audit effort. To ensure this approach was valid, we have undertaken the following:
- reviewed the working processes and independence of Internal Audit
  - reviewed Internal Audit's working papers and reports

- considered the robustness of the key financial systems on the evidence of this work
  - re-performed on a sample basis Internal Audit's evaluation of controls and a sample of their testing of the effectiveness of controls, to ensure that their conclusions are soundly based.
- 3.23 We were satisfied with the processes and independence of Internal Audit and found their work to be of a high quality and therefore established we could rely upon their work.
- 3.24 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 enquiries regarding instances of actual fraud you have identified.
- 3.25 There are no matters we wish to raise with those charged with governance.

### Conclusions

- 3.26 As a result of our work, we have concluded that the key financial systems are adequate as a basis for preparing the Accounts and no significant control weaknesses were identified as a result of our audit.
- 3.27 We did not identify any significant fraud risks that affected our audit programme for the Accounts.

### Matters required to be reported by other auditing standards

- 3.28 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.

## 4 Use of resources

- 4.1 The Audit Commission has indicated that we should review key governance arrangements around the Fund and report any points of significance arising to those charged with governance. We are not however, required to give a separate Use of Resources conclusion or opinion on the Fund.
- 4.2 We briefly reviewed:
- The governance arrangements made by the Fund in accordance with the 2007 Regulations
  - Arrangements for benchmarking performance of the Fund
  - Adequacy of the funding strategy and recovery plans for the Fund's deficits.

### Receipts of contributions

- 4.3 The Council as administering authority has a responsibility to ensure that all relevant contributions are received promptly, with employee contributions required to be received within 19 days after the end of the month to which they relate.
- 4.4 There are arrangements in place to ensure that contributions are received on a timely basis and the Council has put a lot of effort into ensuring amounts are received by the due date. There were a very few instances during the year, when contributions from some of the admitted bodies have been received later than 19 days after the end of the month to which they relate. The amounts received more than two days late totalled less than £30,000. We bring this matter to the attention of those charged with governance.

We set out below our draft letter of representation on the Accounts of East Sussex County Council including the East Sussex Pension Fund Accounts. There are no non standard representations.

## Appendix A: Draft letter of representation

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

XX September 2009

Dear Sirs

### Financial statements of East Sussex County Council for the year ended 31 March 2009

#### *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 financial statements for the year ended 31 March 2009.

#### Responsibility for the financial statements

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

#### 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.

#### Internal control

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

#### Fraud

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

I am not aware of any fraud or suspected fraud affecting the financial statements, nor have any allegations of fraud or suspected fraud affecting the financial statements been communicated to me by employees, former employees, Councillors, regulators or others.

#### Compliance with law and regulations

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

#### 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 financial statements of related party transactions is appropriate and complete and contains all the elements necessary for an understanding of the financial statements.

#### Contingent liabilities

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

### 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	3.1%
Rate of increase in salaries	4.6%
Rate of increase in pensions	3.1%
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.

### Fair value measurements and disclosures

I am satisfied that the carrying value of land and buildings is a reasonable representation of their value at 31 March 2009. I confirm that East Sussex Pension Fund investments are carried out at an appropriate fair value.

### Subsequent events

There have been no events since the balance sheet date which necessitate revision of the figures included in the financial statements or inclusion of a note thereto. Should any material events occur, which may necessitate revision of the figures included in the financial statements 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***

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

**Responsibility for the financial statements**

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

**Uncorrected misstatements**

We have considered the uncorrected misstatements in the financial statements as listed in Appendix I 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 financial statements.

**Annual Governance Statement**

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

Yours faithfully

**Peter Jones**  
**Leader of the Council**

Signed on behalf of the Council

Note: Appendix 1 referred to in this letter relates to Appendix B in this report

## Appendix B: Uncorrected misstatements

There are no uncorrected misstatements.

We set out below our draft Audit Report on the Accounts of East Sussex County Council which includes the Accounts of East Sussex Pension Fund.

## Appendix C: Draft Audit Report

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

#### Opinion on the Authority accounting statements

We have audited the accounting statements and related notes of East Sussex County Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement and the related notes. The accounting statements 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 49 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 auditors

The Deputy Chief Executive and Director of Corporate Resources responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the accounting statements 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 accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority and its income and expenditure for the 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 accounting statements and related notes and consider whether it is consistent with the audited accounting statements. This other information comprises the Foreword by the Deputy Chief Executive and Director of Corporate Resources, Trends, and the Statements of Reporting Reviews of Internal Financial Control. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounting statements 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 accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements 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 accounting statements 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 accounting statements 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 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Name: Richard Bint  
Partner, on behalf of PKF (UK) LLP  
London, UK

### Opinion on the pension fund accounts

We have audited the pension fund accounts for the year ended 31 March 2009 under the Audit Commission Act 1998. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The 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 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

### Respective responsibilities of the Director of Corporate Resources and Deputy Chief Executive and auditors

The Deputy Chief Executive and Director of Corporate Resources' responsibilities for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the 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 pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, 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 read other information published with the pension fund accounts and related notes and consider whether it is consistent with the audited pension fund accounts. This other information comprises the Explanatory Foreword, Trends, and the Statements Reporting Reviews of Internal Financial Control published in the financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the 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 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 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 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 pension fund accounts and related notes.

### Opinion

In our opinion the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund's assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Name: Richard Bint  
Partner, on behalf of PKF (UK) LLP  
London, UK

### 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.

#### *Auditors' 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 May 2008 and updated in February 2009, 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 2009.

### Certificate

We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Name: Richard Bint  
Partner, on behalf of PKF (UK) LLP  
London, UK