



HASTINGS BOROUGH COUNCIL

FINAL REPORT TO THE AUDIT COMMITTEE

Audit for the year ended 31 March 2015

Page 111
15 September 2015

CONTENTS

OVERVIEW.....	1
INDEPENDENCE.....	3
AUDIT SCOPE AND OBJECTIVES.....	4
FINANCIAL STATEMENTS.....	5
CONTROL ENVIRONMENT.....	15
GOVERNANCE REPORTING.....	17
WHOLE OF GOVERNMENT ACCOUNTS.....	19
USE OF RESOURCES.....	20

APPENDIX I: DEFINITIONS.....	27
APPENDIX II: AUDIT DIFFERENCES.....	28
APPENDIX III: MATERIALITY.....	31
APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN.....	32
APPENDIX V: STATUTORY AND PROFESSIONALLY REQUIRED COMMUNICATIONS.....	35
APPENDIX VI: DRAFT REPRESENTATION LETTER.....	37

OVERVIEW

Significant audit findings

This summary covers the significant findings from our audit of Hastings Borough Council ('Council') for the year ended 31 March 2015. However, you should read the entirety of this report, as there may be other matters raised that you consider important.

AREA OF AUDIT	SUMMARY
Independence	We have not identified any potential threats to our independence as auditors.
Financial statements audit status	<p>We have substantially completed our work, although there are a number of outstanding items to be received and/or completed at the time of drafting this report. Further detail on the status of our work is set out on the following page.</p> <p>Our final audit materiality is £1,800,000 (see appendix III) and we have reported all non-trivial unadjusted audit differences greater than £36,000.</p> <p>Management has corrected a number of presentational and other misstatements in the revised financial statements, which has increased the deficit on the provision of services in the CIES by £43,000 to £5.998 million (from £5.955 million) and reduced the surplus after adjustments between the accounting and funding basis under regulation to £680,000 (from £723,000). All corrected amendments are detailed in the 'Key Audit and accounting Matters' section of this report.</p> <p>There are no remaining unadjusted audit differences.</p> <p>Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified true and fair opinion on the financial statements for the year ended 31 March 2015.</p>
Control environment	<p>We identified a significant deficiency in internal controls in respect of the identification and disclosure of related party transactions.</p> <p>Some other areas for improvement in internal control were identified which we have included within this report.</p>
Governance reporting	<p>We are satisfied that the annual governance statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with "Delivering Good Governance in Local Government" (CIPFA / SOLACE).</p> <p>We have made a number of suggestions in terms of best practice in respect of the annual governance statement and explanatory foreword, which management has agreed to consider in future years.</p>
Whole of Government Accounts (WGA)	The Council is below the threshold for the review of the data collection tool (DCT) review.
Use of resources	We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015. We anticipate issuing an unqualified value for money conclusion.

We would like to thank staff for their co-operation and assistance during the audit and throughout the period.

OVERVIEW

Audit status and timetable to completion

We set out below the current status of the audit and our timetable to completion.

AUDIT STATUS

We have substantially completed our audit work in respect of the financial statements and use of resources for the year ended 31 March 2015. The following matters are outstanding at the date of this report.

We will update you on their current status at the Audit Committee meeting on 17 September.

- Clearance of outstanding issues raised with management regarding:
 - Allowance for doubtful debts in respect of housing benefit overpayments
 - Receipt of a small number of outstanding sample items
 - Update of the financial instruments analysis and disclosures.
- Final review of our audit work at engagement partner level and clearance of any review points arising
- Receipt of final draft statement of accounts for agreed amendments
- Subsequent events review
- Management representation letter, as attached in Appendix VI, to be approved and signed.

TIMETABLE TO COMPLETE

The anticipated timetable to complete is as follows:

ACTIVITY	DATE
Audit Committee meeting	17 September 2015
Completion and issue of the auditor's report	30 September 2015

INDEPENDENCE

Integrity, objectivity and independence and appropriate safeguards

Under Audit Commission Standing Guidance and Auditing and Ethical Standards, we are required as auditors to confirm our independence to ‘those charged with governance’. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to bear on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the audit engagement partner and the audit staff. We have considered such matters in the context of our audit for the year ended 31 March 2015.

FEES AND NON AUDIT SERVICES

A summary of fees for audit and non-audit services for the period from 1 April 2014 to date is set out below:

	£
Audit fees	61,890
Certification fees	(1) 11,792
TOTAL FEES	73,682

(1) Work remains on going on the housing benefit subsidy return and the fees shown above is the current scale fee.

OTHER RELATIONSHIPS

We are not aware of any financial, business, employment or personal relationships between the audit team, BDO and the Council.

LONG ASSOCIATION THREATS

The Audit Commission’s Standing Guidance requires that the audit engagement partner should not act for more than five years and the audit manager for 10 years.

Key audit staff	Years involved
Leigh Lloyd-Thomas - Audit engagement partner	1
Jody Etherington - Audit Manager	1

INDEPENDENCE DECLARATION AND APPROPRIATE SAFEGUARDS

We have not identified any potential threats to our independence as auditors.

AUDIT SCOPE AND OBJECTIVES

Code of audit practice requirements

SCOPE AND OBJECTIVES

The audit scope is determined by the Audit Commission's Code of Audit Practice for local government (2010), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. This requires that we form an opinion on whether:

1 The financial statements give a true and fair view of the financial position as at 31 March 2015 and of the income and expenditure for the year then ended.

2 The financial statements have been prepared properly in accordance with statutory requirements and proper practices have been observed in their compilation.

3 The financial statements have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting.

4 The information given in the statement of accounts and explanatory foreword is consistent with the financial statements.

Page 16

5 The annual governance statement is not inconsistent with our knowledge and complies with relevant guidance.

6 The Whole of Government Accounts return is consistent with the audited financial statements and that it is properly prepared (subject to a de-minimis threshold).

7 The audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

FINANCIAL STATEMENTS

Key audit and accounting matters

SIGNIFICANT AND OTHER RISKS OF MATERIAL MISSTATEMENT

We reported our risk assessment, which brought to your attention areas that require additional or special audit consideration and are considered a significant audit risk, in the 2014/15 Audit Plan issued in February 2015. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the draft financial statements, and we have not identified any additional significant risks.

We report below our findings of the work designed to address these significant risks, our review of significant accounting estimates and management judgements, and any other relevant audit and accounting issues arising.

Key: ■ Significant risk/issue ■ Significant accounting estimates and management judgements ■ Other relevant audit and accounting issues

SIGNIFICANT AUDIT RISK AREAS

RISK	RELATED CONTROLS / RESPONSE TO RISK	WORK PERFORMED	CONCLUSION
MANAGEMENT OVERRIDE OF CONTROLS Page 117	ISA (UK&I) 240 requires us to presume that a risk of management override of controls is present and significant in all entities.	We reviewed the appropriateness of journal entries and other adjustments made in the preparation of the financial statements.	No issues have been identified in our review of the appropriateness of journal entries and other adjustments made in the preparation of the financial statements.
	By its nature, there are no controls in place to mitigate the risk of management override.	We also reviewed accounting estimates for evidence of possible bias.	Our work on accounting estimates has not identified any evidence of bias.
REVENUE RECOGNITION	Auditing standards presume that there is a risk of fraud in relation to revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue.	We substantively tested a sample of income received and debtor accruals to supporting documentation to confirm that income had been accurately recorded and earned in the year. We substantively tested an extended sample of receipts to bank either side of the year end to ensure that income was complete and accounted for in the correct period. We also substantively tested an extended sample of invoices raised by the Council after year-end, to gain further assurance over the completeness of income.	No issues have been identified to date from our testing of income streams and year end cut off with regard to the recognition of revenue in the relevant financial year.

FINANCIAL STATEMENTS

Key audit and accounting matters

SIGNIFICANT AUDIT RISK AREAS

RISK	RELATED CONTROLS / RESPONSE TO RISK	WORK PERFORMED	CONCLUSION
LAND AND BUILDINGS VALUATIONS	<p>In the previous year we noted that the basis of valuation for land and buildings assets valued at Depreciated Replacement Cost (DRC) had incorrectly failed to apply an 'instant build' approach as required by the Code.</p> <p>In response, the Council obtained up to date valuations for buildings valued on a DRC basis and instructed the valuer to apply the 'instant build' methodology.</p>	<p>We reviewed the valuation report provided to the Council by its valuers (Wilks, Head and Eve) in order to gain assurance over the valuation methodology applied in the current year. We reviewed each of the assets which had been incorrectly valued in the past to ensure that they had been revalued in year using the correct valuation methodology.</p>	<p>The Council's valuers have confirmed in their report to the Council that they have used the instant build approach in the valuation of specialised assets, in line with Code requirements.</p> <p>We have confirmed that each of the assets which were valued using the incorrect approach in prior periods has been revalued during the year, and that all accounting entries in relation to the revaluations have been correctly posted.</p>

FINANCIAL STATEMENTS

Key audit and accounting matters

SIGNIFICANT ACCOUNTING ESTIMATES AND MANAGEMENT JUDGEMENTS

ESTIMATE	WORK PERFORMED	CONCLUSION
<p>Page 19</p> <p>DEFINED BENEFIT PENSION SCHEMES</p>	<p>The net pension liability comprises the Council's share of the market value of assets held in the East Sussex Pension Fund and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation. Management has agreed the assumptions made by the actuary to support the estimate and these are disclosed in the financial statements.</p> <p>We have reviewed the reasonableness of the assumptions applied by comparing these to the expected ranges provided by an independent consulting actuary report.</p> <p>We have also reviewed the independence and competence of third party experts engaged by management to value the Scheme liabilities.</p> <p>Finally, we reviewed the accuracy and completeness of disclosures in relation to the Council's defined benefit pension scheme, and the assumptions applied in valuing the liabilities.</p>	<p>As at 31 March 2015 net pension liabilities disclosed in the balance sheet increased by approximately £4.0 million. This comprised an increase in the liabilities of £14.4 million (to £147.9 million) and an increase in assets of £10.4million (to £101.7 million). It should be noted that these retirement benefits (liabilities) will not actually be payable until employees retire but because the Council has a commitment to make the payments, there is a requirement to disclose the information in the accounts at the time employees earn their future entitlement.</p> <p>The last formal valuation of the Fund was carried out as at 31 March 2013. In order to assess the value of the Council's liabilities as at 31 March 2015 the actuary has rolled forward the value of the liabilities calculated at the latest formal valuation, allowing for up to date financial assumptions.</p> <p>The key changes to the financial assumptions relate to:</p> <ul style="list-style-type: none"> • 0.4% reduction in the salary increase rate to 4.0% • 0.7% reduction in the pension increase rate to 2.1% • 1.4% reduction to the discount rate to 3.1% (to place a current value on the future liabilities through the use of a market yield of corporate bonds). <p>We have compared the assumptions used by the actuary to calculate the present value of future pension liabilities with the expected ranges provided by the independent consulting actuary.</p> <p>We are satisfied that the assumptions used are reasonable and within the expected ranges.</p> <p>Based on the results of these procedures, we concluded that the estimates and judgments were reasonable and were determined using consistent processes in accordance with established policies.</p>

FINANCIAL STATEMENTS

Key audit and accounting matters

SIGNIFICANT ACCOUNTING ESTIMATES AND MANAGEMENT JUDGEMENTS

ESTIMATE	WORK PERFORMED	CONCLUSION
<p>ALLOWANCES FOR DOUBTFUL DEBT - HOUSING BENEFIT OVERPAYMENTS</p> <p>Page 120</p>	<p>We reviewed the basis for the Council’s doubtful debt provision to assess the reasonableness of the methodology and assumptions used. We also reviewed the Council’s working papers to ensure that its methodology had been correctly applied.</p>	<p>Housing Benefit Overpayments</p> <p>In previous years, the Council has provided 100% against debtors in respect of housing benefit overpayments. This year, management determined that a 100% provision was overly prudent, and have therefore reduced the provision to 80%. As a result, the provision this year has fallen by £167,000 to £1,986,000.</p> <p>The decision to move to an 80% provision rate was made by management following discussions with other authorities, and from our own benchmarking against similar authorities we are satisfied that a provision of 80% is unlikely to be materially misstated.</p> <p>However, in order to fully conclude in this area, we have asked management for a breakdown of the debtor for further analysis, and we are still awaiting this at the time of drafting this report.</p> <p>In future years, we would recommend that the Council carries out an exercise to look at the aging profile of the debt and historic collection rates, in order to obtain a more accurate estimate of the provision.</p>
<p>ALLOWANCES FOR DOUBTFUL DEBT - COUNCIL TAX AND NDR</p>	<p>We reviewed the basis for the Council’s doubtful debt provision to assess the reasonableness of the methodology and assumptions used. We also reviewed the Council’s working papers to ensure that its methodology had been correctly applied.</p>	<p>Council Tax and NDR arrears</p> <p>The Council has provided against Council Tax and NDR arrears by assuming a final collection rate of 97.5% for Council Tax and 99.0% for NDR. This is based upon in-year collection rates and historic experience. In respect of debts older than one year, the Council has assumed a 100% provision, less £600,000, which reflects the future expected amounts to be collected in respect of this debt.</p> <p>Based on the above methodology, the Council’s share of the estimated provision for non-recovery of arrears is £613,000 for Council Tax arrears and £303,000 for NDR arrears. The gross amounts provided for on the collection fund are £4,267,000 for Council Tax and £758,000 for NDR.</p> <p>We have carried out our own review of Council Tax debtors, and recalculated the provision using historic collection rates for all debts up to 6 years old. Using this alternative methodology generates a provision of £629,000.</p> <p>The difference between this and the Council’s provision is clearly trivial. We are therefore satisfied that the provisions are fairly stated.</p>

FINANCIAL STATEMENTS

Key audit and accounting matters

SIGNIFICANT ACCOUNTING ESTIMATES AND MANAGEMENT JUDGEMENTS

ESTIMATE	WORK PERFORMED	CONCLUSION
ALLOWANCES FOR DOUBTFUL DEBT - TRADE RECEIVABLES	<p>We reviewed the basis for the Council's doubtful debt provision to assess the reasonableness of the methodology and assumptions used. We also reviewed the Council's working papers to ensure that its methodology had been correctly applied.</p> <p>This included testing the completeness of trade receivable balances identified as impaired by inspecting the trade receivables aging analysis and inquiring with management and obtaining corroborating evidence on the recoverability of overdue trade receivables.</p>	<p>Trade Debtors</p> <p>The Council estimates a provision in respect of trade debtors based upon the aging profile. Debts which are less than 90 days overdue are provided for at 10%, and debts over 90 days overdue at 50%. The Council also provides 100% against specific debts where there is evidence that recovery is unlikely, whilst excluding public sector debtors from the calculation, as such amounts are always deemed to be recoverable.</p> <p>Using the above methodology, the bad debt provision has decreased by £72,000 to £137,000.</p> <p>We have found one small error within the calculation this provision. The provision has been reduced by amounts already written-off - however since these were not included within the initial aged debtors listing used to calculate the provision, this adjustment was not required. The impact of this error is that the provision is understated by £43,000.</p> <p>Management has corrected this misstatement in the financial statements.</p>

FINANCIAL STATEMENTS

Key audit and accounting matters

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES

ISSUE	WORK PERFORMED AND FINDINGS	CONCLUSION
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 122</p> <p>CLASSIFICATION OF CREDITORS AND DEBTORS</p>	<p>We performed an analytical review of debtor and creditor balances at year-end to ensure that these were correctly classified and in line with expectations.</p>	<p>We identified a number of classification errors within the debtors and creditors notes:</p> <p>The draft financial statements included a VAT debtor of £904,000 and a VAT creditor of £128,000 for amounts owed to and from HMRC. The Council should disclose this as net debtor balance thereby reducing both debtors and creditors by £128,000.</p> <p>We found inconsistencies in the way in which the Council classifies its debtors and creditors in relation to Council Tax. The basis of agency accounting as set out in the Code requires that all year-end balances in respect of taxation (for example arrears, overpayments, prepayments, etc.) are apportioned between the billing authority and the relevant preceptors, with the net balance for each preceptors reported as a single item debtor or creditor. The Council does however separately disclose its share of the balances across the relevant balance sheet headings. Whilst we are satisfied that the net balance sheet position is materially correct, we found a number of instances where the balance attributable to preceptors was classified differently from the underlying gross balance. For example, for Council Tax arrears, the gross balance owed to the Council by taxpayers has been correctly classified with debtors from ‘all other bodies’, whilst the element attributable to preceptors has been classified as ‘central government’. Correction of these errors would result in the following adjustments:</p> <ul style="list-style-type: none"> • Central government debtors would increase by £1,053,000. • All other bodies debtors would decrease by £1,053,000. • Other local authority creditors would increase by £1,320,000. • All other bodies creditors would decrease by £1,320,000. <p>Errors were made when calculating the split of the Council Tax creditor with preceptors between current and non-current creditors. As a result, current creditors are overstated by £85,000, and non-current creditors are understated by the same amount.</p> <p>The Council did not split the NDR debtor from preceptors between current and non-current debtors. As a result, current debtors are overstated by £313,000, and non-current debtors are understated by the same amount.</p> <p>Management has corrected these misstatements in the financial statements.</p>

FINANCIAL STATEMENTS

Key audit and accounting matters

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES		
ISSUE	WORK PERFORMED AND FINDINGS	CONCLUSION
EMPLOYEE REMUNERATION NOTE	We compared the Council's employee remuneration note to supporting working papers and payroll records, to ensure that it was complete and accurate.	<p>We found that pension contributions in respect of one senior employee were overstated in the disclosure note by £4,730, as a result of a spreadsheet error.</p> <p>We also found a number of errors within the table showing the number of employees whose emoluments were greater than £50,000.</p> <p>Management has agreed to correct both of these disclosure misstatements in the financial statements.</p>
MEMBERS' ALLOWANCES NOTE	We compared the figures disclosed in the members' allowances note to supporting working papers and transaction listings, to ensure that the disclosures were complete and accurate.	<p>We identified the following errors within the calculation of members' allowances:</p> <ul style="list-style-type: none"> • Certain payments to members were erroneously excluded from the draft disclosure note • The draft disclosure note totals included a small number of transactions to individuals who are not Members (for example independent members of sub-committees), which should not be included • A small number of transactions were incorrectly classified as 'Conferences, Training and Travelling Expenses', when they should have been classified as 'Members Allowances'. <p>The net impact of the above errors was that Members Allowances were understated by £13,000, and Conferences, Training and Travelling Expenses were overstated by £1,000.</p> <p>Management has agreed to correct these misstatements in the financial statements.</p>
TERMINATION BENEFITS NOTE	We compared the figures disclosed in the termination benefits note to supporting working papers and transaction listings, to ensure that the disclosures were complete and accurate.	<p>We found that the figures in the draft note excluded the cost to the Council of pay in lieu of notice which was agreed and paid to a number of employees as part of their exit package.</p> <p>Management has agreed to correct these misstatements in the financial statements.</p>

FINANCIAL STATEMENTS

Key audit and accounting matters

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES

ISSUE	WORK PERFORMED AND FINDINGS	CONCLUSION
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 124 OTHER DISCLOSURES AND INFORMATION</p>	<p>We reviewed the notes to the financial statements, and, where material, agreed these to supporting evidence. We also completed a disclosure checklist on the financial statements, to confirm whether the Code requirements had been fully complied with.</p>	<p>We identified a number of disclosure issues within the financial statements:</p> <ul style="list-style-type: none"> • A note on Critical Judgements should be included, to describe the reasons for management’s decision not to consolidate the Foreshore Trust into the Council’s accounts (amended) • The note on Major Sources of Uncertainty and Accounting Estimates should include a description of accounting estimates related to bad debt provisions (amended) • The current presentation of the Property, Plant and Equipment note as two separate tables is difficult to read. Whilst all of the information required by the Code has been presented, the Council should consider combining this into one table as per the example in the Code Guidance Notes • Within the Property, Plant and Equipment note, revaluation movements posted to the Comprehensive Income and Expenditure Statement had been incorrectly described as ‘Impairments’, although the figures themselves were correct (amended) • The debtors note included two different analyses, between type of debt, and nature of debtor. The Code only requires the second analysis, therefore the first table can be removed (amended) • Within the Defined Benefit Pension Schemes note, no disclosure has been made of the maturity profile of the Council’s defined benefit obligation, as required by the Code • Within the Defined Benefit Pension Schemes note, no disclosure has been made in respect of unfunded discretionary benefits (amended) • Within the Defined Benefit Pension Scheme note, actuarial gains and losses needs to be split into its component parts (amended) • Within the Contingent Liabilities note, disclosures on LAMS should include the start and end date of the deposit, and details of any defaults to date • Within the financial instruments note, the analysis of financial assets and financial liabilities and the accompanying information required amendment (amendment to be processed) <p>(Continued)</p>

FINANCIAL STATEMENTS

Key audit and accounting matters

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES

ISSUE	WORK PERFORMED AND FINDINGS	CONCLUSION
Page 125		<ul style="list-style-type: none">• The current presentation of the Amounts Reported for Resource Allocation Decisions note could be improved by splitting it into two tables showing income and expenditure as reported to management, and then a separate reconciliation to cost of services in the Comprehensive Income and Expenditure Statement. The Council should also include an introductory paragraph• There were inconsistencies between tables in the Leases notes (amended)• A small number of suggested improvements to the Accounting Policies note, including the removal of immaterial policies (e.g exceptional items, intangibles, inventories), and a number of minor improvements to other policies to further explain the policies in use by the Council (partially amended)• A number of minor typographical and cross-referencing errors, for example incorrect note references, and errors in prior year comparative figures (partially amended - remaining errors considered trivial) <p>As indicated above, management has corrected a number of these errors within the second draft Statement of Accounts. Management has also agreed to correct errors in the Cash Flow Reconciliation note, and we will review this work once complete.</p> <p>We are satisfied that the remaining uncorrected issues are not material to the financial statements as a whole.</p>

FINANCIAL STATEMENTS

Key audit and accounting matters

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES		
ISSUE	WORK PERFORMED AND FINDINGS	CONCLUSION
IMMATERIAL INFORMATION CONTAINED IN THE FINANCIAL STATEMENTS Page 126 NOTES TO THE COLLECTION FUND	Our audit involves reading all of the information contained in and accompanying the financial statements.	<p>A number of immaterial and unnecessary disclosures have been included within the Statement of Accounts, including Changes to Accounting Policies, Rounding, Material Items of Income and Expense, Other Operating Expenditure, Intangible Assets, Agency Services, Construction Contracts, Exceptional Items, Events After the Reporting Period, and Council Tax Surpluses and Deficits.</p> <p>Throughout the accounts, there were several notes which contained lines or columns where all figures were zero - these should be removed to improve readability (partially amended).</p> <p>We worked with officers to remove certain immaterial and irrelevant information from the financial statements. However, there is further scope to improve the presentation of information in the financial statements by combining disclosures and reducing the volume of information contained in within the notes.</p>
	We compared the disclosures made in the notes to the Collection Fund to supporting working papers, to ensure that they were complete and accurate.	<p>We identified the following disclosure issues in the draft accounts:</p> <ul style="list-style-type: none"> • Within the 'Council Tax Base' note, the Council had disclosed the wrong number of properties in each council tax band, as a result of using Band D equivalent figures rather than the total number of properties in each band. • Within the NDR section of the 'Apportionment of Balances' note, some balances were incorrectly disclosed as a result of errors which occurred during the transfer of information from the Council's working papers (which were correct) to the draft Statement of Accounts. <p>Management has agreed to correct these misstatements in the financial statements.</p>

FINANCIAL STATEMENTS OPINION

Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified true and fair opinion on the financial statements for the year ended 31 March 2015.

CONTROL ENVIRONMENT

Significant deficiencies

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

As the purpose of the audit is for us to express an opinion on the financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control. We only restate weaknesses already reported by internal audit where we consider these to be significant deficiencies.

Key: ■ Significant deficiency in internal control ■ Other deficiency in internal control ■ Other observations

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION
Page 127 RELATED PARTY TRANSACTIONS	<p>During our testing of related party transactions, we identified a large number of members' interests and potential related parties which had not been declared within members' annual declarations. As a result, there were a number of related party transactions which were not identified by the Council and disclosed within the financial statements.</p> <p>In most cases, the interests had previously been disclosed to the Council, as they were included within the register of members' interests. However, as they were not included on the annual return, these were not taken into account by management during the production of the Related Party Transactions note.</p> <p>We also identified a small number of interests from performing Companies House searches of which there was no evidence of previous disclosure to the Council.</p> <p>As a result of our testing, management has prepared an updated Related Party Transactions note, including disclosures relating to three organisations which were not included in the first draft Statement of Accounts. We are in the process of reviewing this latest version of the notes, and will report our final conclusion at the Audit Committee meeting on 17 September.</p>	<p>Due to the sensitive nature of the Related Party Transactions note, any omissions are generally considered to be material to the financial statements.</p> <p>By not capturing all potential interests and related parties as part of the year-end declaration process, this significantly increases the risk that related party transactions will be missed from the disclosure note. This may leave the Council and Members exposed to potential public criticism.</p>	<p>We recommend that management investigate the reasons for the high level of undisclosed interests within the annual declarations from Members, and takes appropriate action to address any control weaknesses. In particular, we recommend that management:</p> <ul style="list-style-type: none"> • Reviews whether the format of the annual declaration form and accompanying guidance is sufficiently clear to enable Members to fully understand the nature of the declarations required. • Considers whether the current training for Members should be enhanced in respect of the annual declaration process. • Considers putting into place additional operational controls as part of the accounts preparation process to minimise the risk of undisclosed related party transactions, for example by carrying out its own review of the Council's register of interests, declarations of interest within meeting minutes, and/or external searches (e.g. Companies House, Charities Commission).

CONTROL ENVIRONMENT

Other deficiencies

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION
REVIEW OF BANK RECONCILIATIONS	During our testing of bank reconciliations, we noted that not all reconciliations had been subject to review in a timely manner, in line with the Council's own procedures.	Although bank reconciliations were being performed throughout the year, regular review by a senior officer is an important part of the Council's system of internal control to detect and prevent fraud and error.	Management has informed us that bank reconciliations are now regularly reviewed, and there has been a process to revisit and review all reconciliations in respect of 2014/15.
MAINTENANCE OF FIXED ASSET REGISTER	During our testing of property, plant and equipment, we identified a small number of assets which had been disposed of but not removed from the fixed asset register, and also a small number of assets which were duplicated on the fixed asset register. All of the assets concerned had a nil value for both cost and accumulated depreciation, so there was no impact on the financial statements.	Effective and regular maintenance of the fixed asset register should be carried out to ensure that the data held is up-to-date, and to reduce the risk of errors occurring in the future.	We recommend that management carries out a data cleansing exercise on the fixed asset register to ensure that assets no longer held by the Council are removed. Management should also revisit the processes around disposals, to ensure that this continues to happen on an ongoing basis.

We made the observations reported to you above during the course of our normal audit work. Management responses to our recommendations in respect of these significant deficiencies and other internal control improvements are included in appendix IV.

GOVERNANCE REPORTING

Governance matters and quality of reporting

FINANCIAL STATEMENTS PREPARATION

The draft financial statements, within the statement of accounts, was prepared and provided to us for audit on 30 June 2015.

As part of our planning for the audit, we prepared a detailed document request which outlined the information we would require to complete the audit. As in previous years, a file of audit working papers has been provided to us on the first day of the audit. However, some of the working papers were not available at the start of the audit, and were provided subsequently.

CONCLUSIONS AND AUDIT ISSUES

We have no matters to report.

GOVERNANCE STATEMENT

We are required to review the draft governance statement and to be satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council's review of effectiveness and our knowledge of the Council.

CONCLUSIONS AND AUDIT ISSUES

We are satisfied that the governance statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and, in all material respects, complies with "Delivering Good Governance in Local Government" (CIPFA / SOLACE).

From our review of the guidance, we have identified the following two areas which we feel are not fully covered by the Council's current disclosures, and where there is some scope for improvement in future years:

- A description of the Council's processes for identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training.
- A description of how the Council establishes clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.

GOVERNANCE REPORTING

Governance matters and quality of reporting

STATEMENT OF ACCOUNTS

We are required to read all the financial and non-financial information in the explanatory foreword to the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.

CONCLUSIONS AND AUDIT ISSUES

We are satisfied that the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

We did identify some issues within the first draft of the explanatory foreword, as follows:

- A small number of figures in the draft Explanatory Foreword were inconsistent with other parts of the financial statements and/or other supporting documentation
- The draft explanatory foreword stated that the cost of services in 2014/15 had fallen significantly - however this is not the case
- Staff headcount information was incorrectly stated, with total full-time equivalent employees being understated by 5.

In addition, we identified the following areas where we feel that there is scope for improvement to the current format of the explanatory foreword. These points have not been addressed in this year's Statement of Accounts, but management has agreed to consider them for next year:

- It is good practice to explain the main reasons for any significant variances to budget in the year, for example the increase in contribution to reserves of £2.4 million from the original budget
- The Council should comment on the use of reserves, the extent to which revenue will be supported by reserves into the future, and level of reserves planned for next few years
- The Council should include a section to report on its non-financial performance in the year. We note that some performance KPIs are included, but there is no commentary around these, and little information about the Council's corporate priorities
- The Council has included narrative description around changes to the NDR regime as at 1 April 2013 within the section entitled 'Events after the balance sheet date'. This is potentially confusing, as the 'new' regime has now been in place for over two years.

WHOLE OF GOVERNMENT ACCOUNTS

Consistency of the Data Collection Tool

REVIEW OF THE DATA COLLECTION TOOL

Auditors are required to review Whole of Government Account (WGA) information prepared by component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure.

The Council falls below the threshold for review and there is no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure.

USE OF RESOURCES

Scope of the review

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

- The organisation has proper arrangements in place for securing financial resilience (robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future)
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness (prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity).

APPROACH

We draw sources of assurance relating to value for money responsibilities from:

- the Council's system of internal control as reported on in its governance statement
- the results of the work of inspectorates and review agencies

• any other locally determined risk-based value for money work that auditors consider necessary to discharge their responsibilities.

We also consider the findings from the following sources:

- value for money profiles tool and financial ratios analysis tool
- risk indicators
- key issues facing the sector

USE OF RESOURCES

Financial resilience

SIGNIFICANT AND OTHER RISKS OF MATERIAL MISSTATEMENT

We reported our risk assessment, which included use of resources risks, in the 2014/15 Audit Plan issued February 2015. We have since undertaken a more detailed assessment of risk following completion of the interim review of financial controls, review of the draft financial statements and review of operational performance for the year, and we have not included any additional significant risks.

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

Key: ■ Significant risk/issue ■ Other relevant use of resources work

RISK	WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 133</p> <p>FINANCIAL SUSTAINABILITY</p>	<p>We have reviewed the financial performance of the Council to date and its financial sustainability through review of the medium term financial and strategic plans.</p> <p>In 2014/15 the final audited outturn resulted in a general fund surplus of £680,000 which was achieved through various underspends and planned savings mainly as a result of the Priority Income and Efficiency Reviews (PIER) model. The surplus has been transferred to earmarked reserves. At 31 March 2015, the General Fund balance was £500,000 (the minimum level recommended by the Chief Finance Officer) and overall usable revenue and capital reserves stood at £21.2 million (an increase of £659,000 in the year).</p> <p>These reserves include £19.7 million of earmarked revenue reserves, £0.7 million of capital receipts and £0.3 million of capital grants reserves. The capital grants reserve is committed to various projects where the cash has been received in advance of need.</p> <p>The Council keeps the level of all reserves under review as part of the medium term planning process to ensure a balanced financial position is maintained and to underpin achievement of the published priorities for Hastings.</p> <p>The council tax balance in the collection fund ended the year with a surplus of £2.9 million, of which the Council's share was £415,000. The NDR balance in the collection fund ended the year in deficit by £2.6 million, of which the Council's share was £1.0 million. The Council collected around £22.4 million of business rates during the year, and under the business rate retention scheme the Council retains 40 percent of this after deducting some £2.5 million in respect of write-offs and provisions related to ratings appeals.</p> <p>(Continued)</p>	<p>The PIER model adopted by the Council has enabled the Council to carefully manage its capital programme, and the rolling efficiency plans have delivered the required savings in each year to date.</p> <p>There are healthy levels of reserves and balances available to support the Council's services and the savings required from 2015/16 up to 2017/18.</p> <p>Therefore, while there is a recognised funding gap in the MTFS, we are satisfied that the Council has appropriate arrangements to continue to remain financially sustainable over the period of the MTFS.</p>

USE OF RESOURCES

Financial resilience

RISK	WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 134 FINANCIAL SUSTAINABILITY</p>	<p>The Council was also required to make a tariff payment to the Department of Communities and Local Government on £5.2 million in year. Both the surplus relating to council tax payers and the deficit relating to business rates have been taken into account when setting the 2015/16 budget.</p> <p>The Council's annual budget and medium term financial strategy process ensures that its priority areas for service improvement and delivery are reflected in financial plans and the Council will then consider the known and forecast impact of the resource changes in the short to medium term.</p> <p>The Council considers its financial position over the medium term through its annual update of the MTFS (which forecasts over a three to five year period), and seeks improvement to delivery and budget management through its PIER process which has challenged (through senior officers and leadership meetings) the service provision and assisted with the setting of the appropriate budgets</p> <p>The Medium Term Financial Strategy (MTFS) was updated during the year to cover the period to 2017/18, and provides a comprehensive analysis of the financial challenges the Council is facing. It also supports achievement of the Council's priorities and considers the impact of major changes planned to Council services, available resources and local need.</p> <p>The update to the MTFS to 2017/18 has forecast inflationary pressures of 2% and further reductions in Government core grant funding, with increases in local taxation income failing to keep pace with funding reductions.</p> <p>The council's PIER plan includes an ambitious £1 million of savings in 2015/16, £1.7 million in 2016/17 and £1.8 million in 2017/18. The 2015/16 budget proposes utilisation of earmarked reserves of £2.9 million, which is an increase of some £0.3 million from the figure originally proposed in the MTFS. The budget also anticipates further utilisation of earmarked reserves in 2016/17 and 2017/18, of £2.0 million and £2.2 million respectively.</p> <p>Following the above utilisation of earmarked reserves, the Council has been able to balance its budget for 2015/16 and 2016/17. However, a funding gap of £0.5 million remains in respect of 2017/18. Identifying the required level of savings will be a challenge and is likely to require difficult decisions around service provision and alternative delivery models. However, over recent years, the Council has built healthy levels of revenue reserves and balances in recognition of the anticipated reductions in government funding.</p>	

USE OF RESOURCES

Challenging economy, efficiency and effectiveness

The economy, efficiency and effectiveness criterion has two aspects: prioritising resources and improving efficiency and productivity.

RISK	WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 135 PRIORITISING RESOURCES</p>	<p>The Council has a three-year Corporate Plan covering the period from 2015/16 to 2017/18, which was approved in February 2015. The plan sets out in the strategic direction of the organisation and the priorities the council would seek to achieve, and was put together following consultation with community organisations within the town and local residents.</p> <p>The Corporate Plan starts by setting out the Council's overall vision, mission and values, and also details the specific programmes and related projects that all parts of the Council will work together to deliver over the next three years. Specific milestones for 2015/16 and identified, and the Council will report its performance against these at the end of the year.</p> <p>The Council continues to have an effective programme to promote value for money in the provision of services through the PIER methodology, which aims to review costs and service plans while considering the impact of financial decisions on the Council's priorities. The process enables the integration of the service and financial planning approach and provides evidence that the Council uses to consider the impact of its expenditure plans on future service performance.</p> <p>The PIER process continues to identify changes to the provision of services across Hastings. Reduced costs secured from the delivery of PIER review outcomes and the planned reductions in expenditure are reflected in financial budgets and the MTFs. The delivery against operational service plans, including the planned efficiency savings, are monitored through regular reports to Cabinet and Scrutiny Committees.</p> <p>The Council is continuing to review the way it works with partners and other local authorities to ensure a more strategic approach to service delivery. The Joint Waste Management partnership with three other Councils in East Sussex has secured a joint waste collection service involving a joint procurement to maximise savings available to all authorities involved. The Council is also now working towards a regeneration project (Coastal Space) with a local Housing Association over the medium to longer term. The partnership is assisting the Council in working towards its priorities for improving access to affordable housing and the economic regeneration of the area.</p>	<p>The refresh of the Corporate Plan, and the implementation of the PIER approach, has allowed the Council to focus its resources on the key priorities within the expectations of constraints on the funding available.</p>

USE OF RESOURCES

Challenging economy, efficiency and effectiveness

RISK	WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">OPERATIONAL PERFORMANCE Page 136</p>	<p>Throughout 2014/15 the Council monitored its performance on a quarterly basis and reported that the majority of its targets have been met.</p> <p>Some of the key highlights were:</p> <ul style="list-style-type: none"> • 97 empty homes were brought back to use against a year target of 70, and 55 neglected and derelict buildings were improved against a target of 50. • The number of homelessness cases prevented was 2,179 against a target of 1,800. • 96.9% of major residential and commercial planning applications were determined within 13 weeks (or as agreed with the applicant) against a target of 70.0%. • Website visits were up by more than 19% from the previous year. • Council tax collection rate was 96.5% against a target of 96.0%. <p>The Council reported underperformance in respect of the average number of days to process changes to Council Tax Reduction Claims (6.4 days against a target of 5 days); average number of days to process new housing benefit claims (7.2 days against 5 days); the proportion of working days/shifts lost due to sickness absence (6.41 days against 6.25 days); and the net number of new homes built (167 against 200).</p> <p>The Council has highlighted underperformance in these areas and prepared action plans to address the reasons for the underperformance. These action plans will be monitored throughout 2015/16 through the quarterly performance reporting to the Overview and Scrutiny Committees.</p>	<p>The Council is properly monitoring performance against its key targets and addressing underperformance where appropriate.</p>

USE OF RESOURCES

Challenging economy, efficiency and effectiveness

RISK	WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
<p>VFM PROFILE Page 137</p>	<p>The Audit Commission, and now Public Sector Audit Appointments Ltd, provides auditors with a Vfm Profile Tool of comparative financial data for all local authorities. This is available at www.vfm.psaa.co.uk.</p> <p>We have reviewed the reports available with data populated in July 2015, which includes mainly 2013/14 outturn costs, comparing the Council with an all District Council comparative group.</p> <p>Overall net spend per head for the Council in 2013/14 was the highest in the country at £751.30 per head, against an average of £401.49 per head. Planned current expenditure per head of population was also in the highest 5% of authorities with spend at £796.54 against an average of £408.09.</p> <p>Management has noted that the cost data includes significant amounts of external funding, such as attracting European support funding, but excludes the funding received to match the costs which may explain some of the higher costs per head data.</p> <p>The high costs within the authority are also driven primarily by deprivation, with the Council falling within the highest 5% of all authorities in terms of the percentage of the area's population living in the most deprived areas. This, in turn, means that the Council is positioned within the worst 5% of authorities in a number of other indicators which tend to follow high levels of deprivation, such as the under 18 conception rate, proportion of children in poverty, and percentage of working age population claiming jobseekers' allowance.</p> <p>There are, however, areas of high performance such as the income from sales, fees and charges as a percentage of total spend which is above the national average, and the Council's total non-school reserves, other earmarked financial reserves and unallocated financial reserves also compare favourably to the national average.</p>	<p>The VFM Profile Tool shows that the Council is an extremely high cost authority, which is driven primarily through the high levels of deprivation within parts of the Borough.</p> <p>Nevertheless, the Council should continue to seek ways to reduce its costs, as it is already doing through the PIER process as described above.</p>

USE OF RESOURCES CONCLUSION

We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015. We anticipate issuing an unqualified value for money conclusion.

APPENDICES

APPENDIX I: DEFINITIONS

TERM	MEANING
The Council	Hastings Borough Council
Management	<p>The person(s) responsible for achieving the objectives of the Council and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for:</p> <ul style="list-style-type: none"> the financial statements (including designing, implementing, and maintaining effective internal control over financial reporting) putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them.
Those charged with governance	<p>The persons with responsibility for assurance and the Council’s arrangements for governance, managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance. This includes overseeing the financial reporting process.</p> <p>Those charged with governance for the Council are the Audit Committee.</p>
ISAs (UK & Ireland)	International Standards on Auditing (UK & Ireland)
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards as adopted by the European Union
Materiality	The size or nature of a misstatement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable user of the financial statements would have been changed or influenced as a result of the misstatement.
Code	Code of Practice on Local Authority Accounting in the United Kingdom issued by CIPFA / LASAAC (Chartered Institute of Public Finance and Accountancy / Local Authority Scotland Accounts Advisory Committee)
SeRCOP	Service Reporting Code of Practice for Local Authorities issued by CIPFA / LASAAC
SOLACE	Society of Local Authority Chief Executives
CIES	Comprehensive Income and Expenditure Statement

APPENDIX II: AUDIT DIFFERENCES

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

CORRECTED AUDIT DIFFERENCES

Management has corrected a number of presentational and other misstatements in the revised financial statements, which has increased the deficit on the provision of services in the CIES by £43,000 to £5.998 million (from £5.955 million) and reduced the surplus after adjustments between the accounting and funding basis under regulation to £680,000 (from £723,000). All corrected amendments are detailed in the 'Key Audit and accounting Matters' section of this report.

UNADJUSTED AUDIT DIFFERENCES

Page 140
There are no remaining unadjusted audit differences.

UNADJUSTED DISCLOSURE MATTERS

A number of immaterial and unnecessary disclosures have been included within the Statement of Accounts, including Changes to Accounting Policies, Rounding, Material Items of Income and Expense, Other Operating Expenditure, Intangible Assets, Agency Services, Construction Contracts, Exceptional Items, Events After the Reporting Period, and Council Tax Surpluses and Deficits. Management is currently reviewing the draft financial statements and may remove this. We suggest that these should be removed, in order to aid the readability of the accounts.

A small number of other areas for improvement have been identified and reported to management, as set out in the 'Financial Statements' section of this report. We are satisfied that none of the issues reported are material to the Statement of Accounts as a whole.

APPENDIX III: MATERIALITY

In carrying out our work we determine and apply a level of materiality. Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole, or individual elements of the financial statements as appropriate. Consequently, the audit cannot be relied upon to identify all risks or potential or actual misstatements. Materiality may relate to both quantitative and qualitative matters, and for quantitative considerations the numerical level materiality is assessed at may be different for different information in the financial statements. Nevertheless, within this context, we provide an indication of the quantitative levels used for planning purposes. Materiality is re-assessed every year in the context of authoritative audit practice.

MATERIALITY

Planning materiality	£1,800,000
Final materiality	£1,800,000
Clearly trivial threshold	£36,000

Page 14
In our Audit Plan issued in February 2015, we initially reported that we would apply materiality of £1,650,000 based on 2% of gross expenditure, using the prior year outturn.

However, this was updated to reflect the additional expenditure in the 2014/15 budget including significant amounts of revenue expenditure funded from capital under statute in the year. Planning materiality was revised at the start of the audit again applying 2% of gross expenditure.

We have no reason to revise our final materiality.

APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
FINANCIAL STATEMENTS				
<p>Aging and collection rate for receivables (housing benefits)</p> <p>In previous years, the Council has provided 100% against debtors in respect of housing benefit overpayments. This year, management determined that a 100% provision was overly prudent, and have therefore reduced the provision to 80%, following discussions with similar authorities.</p>	<p>Although we have determined that the provision is not materially misstated, in future years we would recommend that the Council carries out a more detailed exercise to look at the aging profile of its own debts, and historic collection rates, in order to obtain a more accurate estimate of the provision.</p>			
<p>Classification of Collection Fund debtors and creditors</p> <p>We identified a number of errors and inconsistencies in terms of the classification of debtors and creditors related to Collection Fund balances.</p>	<p>We recommend that management reviews the classification of all Collection Fund debtors and creditors as part of the accounts preparation process for 2015/16.</p>			
<p>Immaterial information contained in the financial statements</p> <p>A number of immaterial and unnecessary disclosures have been included within the Statement of Accounts. In addition, throughout the accounts there were several notes which contained lines or columns where all figures were zero.</p>	<p>We have worked with officers to remove certain immaterial and irrelevant information from the financial statements. However, there is further scope to improve the presentation of information in the financial statements by combining disclosures and reducing the volume of information contained in within the notes, and we would recommend that management consider this in future years.</p>			

APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
CONTROL ENVIRONMENT				
<p>Related party transactions</p> <p>During our testing of related party transactions, we identified a large number of members' interests and potential related parties which had not been declared within members' annual declarations. As a result, there were a number of related party transactions which were not identified by the Council and disclosed within the financial statements.</p>	<p>We recommend that management investigate the reasons for the high level of undisclosed interests within the annual declarations from Members, and takes appropriate action to address any control weaknesses. In particular, we recommend that management:</p> <ul style="list-style-type: none"> • Reviews whether the format of the annual declaration form and accompanying guidance is sufficiently clear to enable Members to fully understand the nature of the declarations required. • Considers whether the current training for Members should be enhanced in respect of the annual declaration process. • Considers putting into place additional operational controls as part of the accounts preparation process to minimise the risk of undisclosed related party transactions, for example by carrying out its own review of the Council's register of interests, declarations of interest within meeting minutes, and/or external searches (e.g. Companies House, Charities Commission). 			

APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
CONTROL ENVIRONMENT				
<p>Maintenance of fixed asset register</p> <p>We identified a small number of assets which had been disposed of but not removed from the fixed asset register, and also a small number of assets which were duplicated on the fixed asset register.</p>	<p>We recommend that management carries out a data cleansing exercise on the fixed asset register to ensure that assets no longer held by the Council are removed. Management should also revisit the processes around disposals, to ensure that this continues to happen on an ongoing basis.</p>			
GOVERNANCE REPORTING				
<p>Annual Governance Statement</p> <p>We have identified the following two areas which we feel are not fully covered by the Council's current disclosures, and where there is some scope for improvement in future years:</p> <ul style="list-style-type: none"> • A description of the Council's processes for identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training. • A description of how the Council establishes clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation. 	<p>We recommend that management considers commenting on these areas in future years.</p>			

APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
-----------------------	-----------------	---------------------	----------------	--------

GOVERNANCE REPORTING

Explanatory Foreword

We identified the following areas where we feel that there is scope for improvement to the current format of the Explanatory Foreword:

- It is good practice to explain the main reasons for any significant variances to budget in the year.
- The Council should comment on the use of reserves, the extent to which revenue will be supported by reserves into the future, and level of reserves planned for next few years.
- The Council should include a section to report on its non-financial performance in the year. We note that some performance KPIs are included, but there is no commentary around these, and little information about the Council's corporate priorities.
- The Council has included narrative description around changes to the NDR regime as at 1 April 2013 within the section entitled 'Events after the balance sheet date'. This is potentially confusing, as the 'new' regime has now been in place for over two years.

We recommend that management considers commenting on these areas in future years.

APPENDIX V: STATUTORY AND PROFESSIONALLY REQUIRED COMMUNICATIONS

COMMUNICATION REQUIRED	DATE COMMUNICATED	TO WHOM	METHOD
Accounting practices, accounting policies, estimates and judgements and financial statement disclosures (ISA 260)			Financial statements section of this report
Significant difficulties encountered during the audit (ISA 260)		No issues	
Significant matters discussed or subject to correspondence with management (ISA 260)		No issues	
The final draft of the representation letter (ISA 260)		Appendix VI	
Independence (ISA 260)			Independence section of this report
Fraud and illegal acts (ISA 240)		No issues	
Non compliance with laws and regulations (ISA 250)		No issues	
Significant deficiencies in internal control (ISA 265)			Control environment section of this report
Misstatements, whether or not corrected by the entity (ISA 450)			Appendix II
Significant matters in connection with related parties (ISA 550)			Control environment section of this report
Events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (ISA 570)		No issues	
Matters relating to the audit of the group (ISA 600)		Not applicable	
Expected modifications to our audit report or inclusions of emphasis of matter / other matter (ISA 705 / 706)		No issues	
Material inconsistencies with other information in documents containing audited financial information (ISA 720)		No issues	
Objections from the public or exercise of statutory powers under the Audit Commission Act 1998		No issues	

APPENDIX VI: DRAFT REPRESENTATION LETTER

TO TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP
55 Baker Street
London
W1U 7EU

17 September 2015

Dear Sirs

Financial statements of Hastings Borough Council for the year ended 31 March 2015

We confirm that the following representations given to you in connection with your audit of the Council's financial statements (the 'financial statements') for the year ended 31 March 2015 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Chief Finance Officer has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2011 and Statement of responsibilities of auditors and of audited bodies local government (March 2010) issued by the Audit Commission, and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2015 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and for making accurate representations to you.

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2011, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the annual governance statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

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

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

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

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

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

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

We have disclosed to you all allegations of fraud or suspected fraud affecting the financial statements that have been communicated by councillors, employees, former employees, analysts, regulators or any other party.

We attach a schedule showing accounting adjustments that you have proposed, which we acknowledge that you request we correct, together with the reasons why we have not recorded these proposed adjustments in the financial statements. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements.

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

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

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

(a) Pension fund assumptions

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

- Rate of increase in salaries 4.0%
- Rate of increase in pensions 2.1%
- Rate for discounting scheme liabilities 3.1%
- Take up option to convert the annual pension into retirement grant - pre April 2008 50%
- Take up option to convert the annual pension into retirement grant - post April 2008 75%

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

(b) Allowance for doubtful debts - housing benefit overpayments

We confirm that the assumptions underlying the calculation of the allowance for doubtful debts in respect of housing benefit overpayments are reasonable and consistent with our knowledge of the business. The key assumption is that the allowance should be set at 80% of the total amounts owed to the Council.

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

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

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

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

Yours faithfully

Peter Grace

Assistant Director, Financial Services and Revenue

Chief Finance Officer

17 September 2015

Councillor Matthew Beaver

Chair, Audit Committee

Signed on behalf of the Audit Committee

17 September 2015

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO LLP is authorised and regulated by the Financial Conduct Authority to conduct investment business.

Copyright ©2015 BDO LLP. All rights reserved.

www.bdo.co.uk