

Annual Audit and Inspection Letter

Hastings Borough Council

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Reference:	HA023 Annual Audit and Inspection Letter
Date:	December 2004

Executive summary

The purpose of this Letter

This is our audit and inspection 'Annual Letter' for Members for 2003/04, and is presented by the council's Relationship Manager and District Auditor. The Letter summarises the conclusions and significant issues arising from our recent audit and inspections of the council.

We have issued separate reports during the year having completed specific aspects of our programme. These reports are listed at Appendix 1 for information.

Appendix 2 sets out the scope of audit and inspection and Appendix 3 provides information about the fees charged.

Key messages

Council performance

The council was assessed as good through our comprehensive performance assessment regime and is putting actions in place to further develop and improve its performance.

The main strand of the council's activity is delivering the comprehensive regeneration programme to tackle the key social, physical and economic issues which are recognised in the council's ranking as one of the most deprived districts in the country.

The council is working in a number of partnerships to secure this regeneration most notably in connection with the Hastings and Bexhill taskforce. The planned developments have been given much publicity and there has been achievement of the early stages of the programme. For instance, the University Centre and media centre have opened.

However, press reports have highlighted possible difficulties to be overcome in relation to the charitable status of the foreshore land, which might affect the proposals. The bulk of the regeneration programme; Ore valley, millennium communities, University and media centre is unaffected.

The council has stated that it remains committed to supporting the foreshore and other developments. There are a number of possible ways by which the foreshore proposals can be continued and the council is actively pursuing these.

In addition to the extensive regeneration programme, the council is pursuing joint working with other authorities for example; in the purchase of IT systems to maximise economies of scale, joint marketing of the 1066 area and across other services.

All of the districts in East Sussex are working together with the county council to help improve services in a number of key areas: human resource management; procurement and joint working in areas such as waste, benefits and maximising the contribution of local strategic partnerships.

Council performance

The council was assessed as good under the Comprehensive Performance Assessment (CPA) regime. Since then it has developed an improvement plan to tackle the weaknesses identified and secure improvements against key priorities.

CPA scorecard

Element	Assessment
Overall	Good
Performance score out of 4	
Ambition	3
Prioritisation	3
Focus	3
Capacity	2
Performance management	3
Achievement in service quality	3
Achievement of improvement	3
Investment	4
Learning	3
Future plans	3

(Note: 1=lowest, 4=highest)

CPA improvement

The council has identified a number of specific outcomes to achieve following on from CPA:

- increasing capacity to maintain good quality services while contributing to the expanding regeneration programme;
- increase the effectiveness of scrutiny and ensure activities are an important aid to focus;
- improve learning processes and customer satisfaction;
- achieve a higher profile for waste management issues and a greater emphasis on waste minimisation education and awareness;
- compliance with the Disability Discrimination Act;
- corporate contracts for energy; and
- a strategic approach to meeting young peoples' leisure needs.

An action plan has been drawn up, with clear targets and milestones, which are devolved into specific service plans. Early signs are encouraging that investment is being made in a number of areas to secure future outcomes, for instance:

- development of homeless and housing strategies;
- progressing improvement works to bring council buildings up to meet disability discrimination act; and
- progressing the council's work on a youth action plan.

In common with all authorities, the council is expected to make continuous improvement. One way in which improvements are being planned is through programmes of joint work across a number of authorities in East Sussex, the aim of which is to investigate and take advantage of economies of scale where possible.

Key areas being explored include: human resource management; procurement; joint working in areas such as benefits planning and waste collection and maximising the contribution of local strategic partnerships. This builds on the existing joint work which the council has been engaged in for some time in areas such as; 1066 marketing, pest control and printing.

We intend to review and report on the progress the council has made in implementing its improvement actions as part of our 2004/05 audit.

Other performance work

We have audited the council's 2004/05 Best Value Performance Plan and are satisfied that it complies with statutory requirements. The Plan provides useful information on the council's activities, aspirations and achievements. It is both informative and attractively designed.

Performance information

We have audited the council's best value performance indicators for 2003/04 and are satisfied that they are in line with requirements. In particular the council's Best Value Performance Plan comments objectively of the council's performance highlighting areas where performance has and has not met target.

Accounts and governance

Audit of 2003/04 accounts

We issued an unqualified opinion on your statement of accounts on 1 December 2004.

Matters arising from the final accounts audit

The published accounts are an essential means by which the council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. Members approved the annual accounts on 28 July 2004.

The timeliness in producing the accounts will become increasingly important over the next few years as the deadline for completion of the accounts is brought forward in line with the Government's requirement.

Financial standing

General fund spending and balances

The council's spending is tightly controlled and monitored closely. The financial position for the year ended 31 March 2004 was broadly in line with the revised budget, which required a net total of £14.8 million to be met from government grants and local taxpayers. Performance to date on the 2004/05 budget is broadly in line with expectations.

The Local Government Act 2003 imposed a duty on chief financial officers to report on the adequacy of the level of reserves. In setting the 2004/05 council tax the Deputy Chief Executive and Director of Finance considered a general reserve of £1.6 million to be prudent. The outturn figure of £1.8 million is therefore satisfactory. The level of the council's general fund balance and reserves is shown below.

	31 March 2003 £000s	31 March 2004 £000s
General fund balance	877	789
General reserves (to support general fund spending)	1,926	1,791
Other earmarked reserves (mostly earmarked for capital items)	12,371	12,051
Useable capital receipts	3,316	1,690

Council tax collection

In previous years we have commented on the level of council tax collection and the balance on the collection fund revenue account.

The in year council tax collection level has varied over the past few years at around 95 per cent to 96 per cent, but remained at below average. The level for 2003/04 was 95.3 per cent, which was below average and below the council's target level of 96.35 per cent. Following a best value review, the collection of revenues was taken back in house in January 2004 in a bid to improve collection rates and cost efficiency.

The latest performance monitoring report for 2004/05, at the end of the second quarter shows improved performance in that 56.32 per cent of council tax had been collected against a target of 56.25 per cent and equivalent performance of 55.76 per cent over the same period in 2003/04.

In our previous Letter we reported that the collection fund revenue account was in deficit (£527,000 deficit at 31 March 2003). The collection fund account for 2003/04 achieved a surplus of £533,000 following the recovery of previous years' deficits as part of the council tax setting process and the balance on the account stands at £6,000.

The council is currently developing its budget proposals for 2005/06 and beyond. The council's budgeting process provides a robust mechanism to meet the challenges it faces for the future. It has over past years been sensibly pursuing a strategy of reducing reliance on reserves to meet ongoing expenditure combined with reviewing priorities.

Pensions fund deficit

The council's accounts incorporate the necessary accounting entries in relation to Financial Reporting Standard 17 which has changed the way in which pensions are accounted for. FRS 17 requires that the full costs, accrued by Members of the pension fund are accounted for in the year they are earned. This full cost is different to and replaces the cash payments made to the pension fund which are determined every three years by the fund actuary.

In addition, the accounts now incorporate the council's share of the net assets less liabilities of the East Sussex CC pension scheme. The resultant figure is a net pension liability of £11.5 million which needs to be met in future years if the pension fund is to be able to meet all its liabilities when they become due. However, it is expected that the council will make payments at the level determined by the Actuary on an ongoing basis. The £11.5 million deficit does not at present represent an additional item to be budgeted for, other than through the contribution level set by the Actuary.

Systems of internal financial control

The council has incorporated a statement of assurance on corporate governance and internal systems within its statement of accounts. We are satisfied that the council's review and control arrangements are robust.

Statement of internal control

The council's accounts set out a statement of assurance on corporate governance and internal systems. The statement is underpinned by a range of systems and procedures.

- Comprehensive budgeting and monitoring systems.
- Setting of targets to measure financial and other performance.
- Clearly defined financial regulations and procedures.

Furthermore, Internal Audit provides assurance by way of reviews of compliance with and the effectiveness of the council's internal control framework.

The statement has been reviewed and agreed by Members, after taking account of the Internal Audit report on their audit findings.

Internal Audit's report commented that the bulk of the council's main financial systems scored 'good' but that payroll/personnel and financial regulations and contract standing orders scored 'Adequate but.' The report also noted that three planned audits were not carried out but have been carried forwards into 2004/05.

These three audits have now been completed. The council's financial regulations and contract standing orders are also being revised since the Internal Audit findings were reported. Internal Audit plan to undertake a follow-up review of the personnel/payroll audit before 31 March 2005.

We are satisfied that the council's review and control arrangements are robust.

Standards of financial conduct and the prevention and detection of fraud and corruption

We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption.

Legality of transactions

The council's Monitoring Officer reported in July 2004 that the council had acted in breach of the rule of law. The breach related to the failure since 1893 to establish a charitable trust in respect of the foreshore land conveyed from the Crown to the council. Rather than establish a separate trust the council has assumed beneficial ownership of this land and incorporated it within its own accounts when it should have maintained separate accounts.

Since becoming aware of the implications of this failure, the council has taken and followed counsel's advice on the implications for its statement of accounts for 2003/04 and future years. Specifically the council has:

- made full disclosure of the matter in its statement of accounts;
- moved to commence the process of establishing a charitable trust; and
- begun to consider the implications for its own and the taskforce's regeneration schemes affected by the charitable status of the land.

We have received enquiries from a local elector on this matter which we are considering in relation to our audit duties and as such are unable at this present time to formally conclude the audit, although we have given an opinion on the council's accounts.

Other work

Grant claims

Over recent years the number of claims requiring audit certification has grown and audit fees have risen in line with this growth. In accordance with Strategic Regulation, the Audit Commission has adopted a more risk-based approach to the certification of grant claims. With effect from 2003/04 the smaller claims have not been subject to audit or have received a lighter touch. The approach to larger claims has been determined by risk and the adequacy of the council's control environment.

National Fraud Initiative

The council took part in the Audit Commission's National Fraud Initiative (NFI) 2002/03. The NFI, which is undertaken every two years, brings together data from local authorities, NHS bodies, government departments and other agencies, to detect a wide range of frauds against the public sector. Total savings from the 2002/03 exercise exceeded £83 million nationally.

The Commission are repeating the exercise this year and will again collect payroll, pensions, housing benefits, student loan and housing rents data from Authorities. Alongside the core exercise a number of pilot initiatives are being undertaken at selected sites. These are focused on risk areas that were highlighted by Authorities and include payments made to privately run care homes, abuse of blue badge parking permits, serial insurance claimants and duplicate payments to suppliers. These pilot areas, if they prove effective, will be incorporated into future NFI exercises.

Looking forwards

Future audit and inspection work

We have an agreed plan for 2004/05 and we have reported in this Letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2004/05 accounts, will be reported in next year's Annual Letter.

We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the council. We will continue with this approach when planning our programme of work for 2005/06 and develop an agreed programme by 31 March 2005. We will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation.

Revision to the Code of Audit Practice

The Audit Commission has consulted on a revised Code of Audit Practice for application to the audit of the 2005/06 accounts. The new Code, which will be laid before Parliament in January 2005, is designed to secure the following.

- A more streamlined audit, which is proportionate to risk and targeted on areas where auditors have most to contribute to improvement.

- A stronger emphasis on value for money, focussing on bodies' corporate performance and financial management arrangements (rather than individual services and functions).
- Better and clearer reporting of the results of audits.

Further details will be provided in the Audit and Inspection Plan 2005/06.

CPA 2005 and beyond

For district councils we are actively pursuing our Strategic Regulation agenda and are currently concentrating our efforts on poorly performing councils. We have also consulted on CPA 2005 and beyond and are committed to bringing district councils into this framework.

Closing remarks

This Letter has been discussed and agreed with officers and members. A copy of the Letter will be presented at the Audit Committee on 20 January 2005.

The council has taken a positive and constructive approach to our audit and inspection and I would like to take this opportunity to express my appreciation for the council's assistance and co-operation.

Availability of this Letter

This Letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the council's website.



Darren Wells
District Auditor and Relationship Manager
20 December 2004

Status of our reports to the council

Our Annual Audit and Inspection Letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Annual Audit and Inspection Letters are prepared by relationship managers and appointed auditors and addressed to Members and officers. They are prepared for the sole use of the audited and inspected body, and no responsibility is taken by the Audit Commission or its appointed auditors to any Member or officer in their individual capacity, or to any third party.

Audit and inspection reports issued

Report issued	Date
Audit Plan	March 2004
CPA Report	January 2004

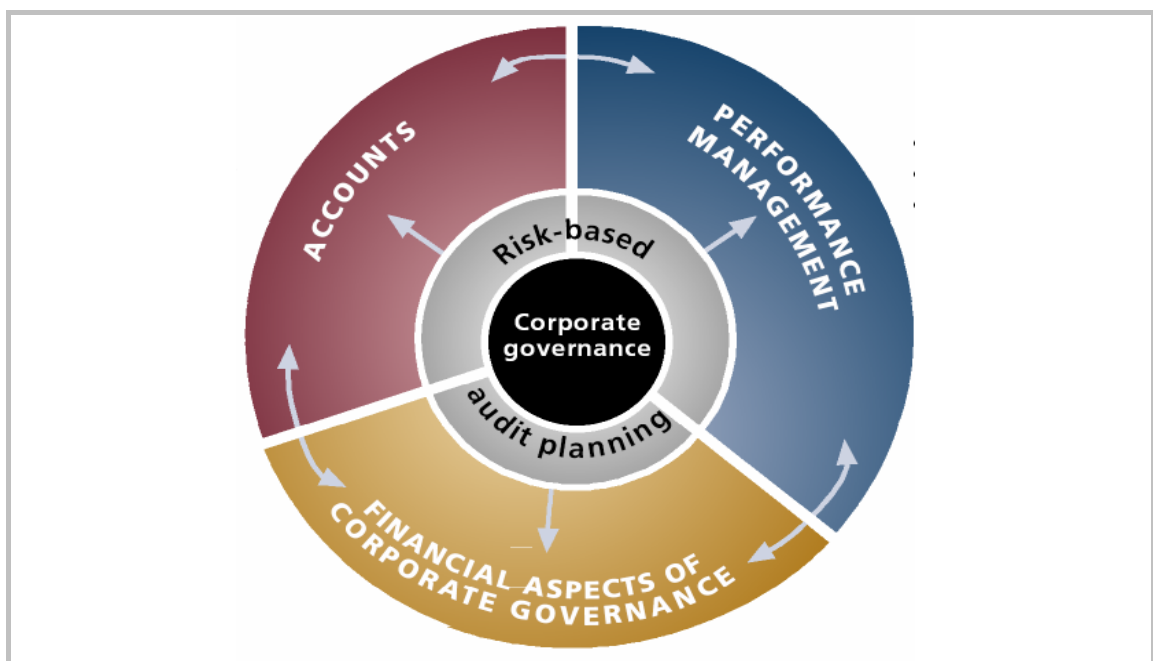
Scope of audit and inspection

Audit

Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.

Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Exhibit 1.

EXHIBIT 1: THE THREE MAIN ELEMENTS OF OUR AUDIT OBJECTIVES



Accounts

- Opinion.

Financial aspects of corporate governance

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct and the prevention and detection of fraud and corruption.
- Legality of transactions.

Performance management

- Use of resources.
- Performance information.
- Best Value Performance Plan.

Inspection

Inspection work is based around section 10 of the Local Government Act 1999, which requires us to carry out inspections and deliver reports that will:

- enable the council and the public to judge whether best value is being delivered;
- enable the council to assess how well it is doing;
- enable the Government to assess how well its policies are being implemented; and
- identify failing services where remedial action may be necessary.

The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.

Audit and inspection fees

Audit fee update

Audit area	Plan 2003/04	Actual 2003/04
Accounts	£24,500	£24,500
Financial aspects of corporate governance	£18,000	£18,000
Performance	£23,300	£23,300
TOTAL CODE OF AUDIT PRACTICE FEE	£64,800	£64,800
Grant claim certification	£34,000	Currently in progress.
Additional voluntary work (under section 35)	None.	

Auditor's report to Hastings Borough Council on its Best Value Performance Plan for 2004/05

Certificate

I certify that I have audited Hastings Borough Council's Best Value Performance Plan in accordance with section 7 of the Local Government Act 1999 and the Audit Commission's Code of Audit Practice. I also had regard to supplementary guidance issued by the Audit Commission.

Respective responsibilities of the council and the auditor

Under the Local Government Act 1999 (the Act) the council is required to prepare and publish a Best Value Performance Plan summarising the council's assessments of its performance and position in relation to its statutory duty to make arrangements to secure continuous improvement to the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The council is responsible for the preparation of the Plan and for the information and assessments set out within it. The council is also responsible for establishing appropriate performance management and internal control systems from which the information and assessments in its Plan are derived. The form and content of the Best Value Performance Plan are prescribed in section 6 of the Act and statutory guidance issued by the Government.

As the council's auditor, I am required under section 7 of the Act to carry out an audit of the Best Value Performance Plan, to certify that I have done so, and:

- to report whether I believe that the Plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Act and statutory guidance and, where appropriate, recommending how the Plan should be amended so as to accord with statutory requirements; and
- to recommend:
 - where appropriate, procedures to be followed in relation to the Plan;
 - whether the Audit Commission should carry out a best value inspection of the council under section 10 of the Local Government Act 1999; and
 - whether the Secretary of State should give a direction under section 15 of the Local Government Act 1999.

Opinion

Basis of this opinion

For the purpose of forming my opinion whether the Plan was prepared and published in accordance with the legislation and with regard to statutory guidance, I conducted my audit in accordance with the Audit Commission's Code of Audit Practice. In carrying out my audit work, I also had regard to supplementary guidance issued by the Audit Commission.

I planned and performed my work so as to obtain all the information and explanations, which I considered necessary in order to provide an opinion on whether the Plan has been prepared and published in accordance with statutory requirements.

In giving my opinion I am not required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by the council. My work therefore comprised a review and assessment of the Plan and, where appropriate, examination on a test basis of relevant evidence, sufficient to satisfy me that the Plan includes those matters prescribed in legislation and statutory guidance and that the arrangements for publishing the Plan complied with the requirements of the legislation and statutory guidance.

Where I have qualified my audit opinion on the Plan I am required to recommend how the Plan should be amended so as to comply in all significant respects with the legislation and statutory guidance.

Opinion

In my opinion, Hastings Borough Council has prepared and published its Best Value Performance Plan in all significant respects in accordance with section 6 of the Local Government Act 1999 and statutory guidance issued by the Government.

Recommendations on procedures followed in relation to the Plan

Where appropriate, I am required to recommend the procedures to be followed by the council in relation to the Plan.

Recommendations on referral to the Audit Commission/Secretary of State

I am required each year to recommend whether, on the basis of my audit work, the Audit Commission should carry out a best value inspection of the council or whether the Secretary of State should give a direction.

On the basis of my work:

- I do not recommend that the Audit Commission should carry out a best value inspection of Hastings Borough Council under section 10 of the Local Government Act 1999; and
- I do not recommend that the Secretary of State should give a direction under section 15 of the Local Government Act 1999.



Darren Wells
District Auditor and Relationship Manager
20 December 2004