



HASTINGS BOROUGH COUNCIL

FINAL REPORT TO THE AUDIT COMMITTEE

Audit for the year ended 31 March 2014

September 2014

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OVERVIEW

Significant audit findings

This summary covers the significant findings from our audit of Hastings Borough Council ('Council') for the year ended 31 March 2014. However, you should read the entirety of this report, as there may be other matters raised that you consider important. We would like to thank staff for their co-operation and assistance during the audit and throughout the period.

AREA OF AUDIT	SUMMARY
Financial statements	<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. Our final audit materiality is £1,652,000 (see appendix III) and we have reported all non-trivial unadjusted audit differences greater than £33,000.</p> <p>Material disclosure amendment</p> <p>The Council did not fully follow the Cipfa Code of Practice when disclosing for the tariff payment of £5 million made to the Government from the total amount of Non-Domestic Rates collected in the year. The amount was excluded from gross expenditure and gross income (both were understated) in the Comprehensive income and Expenditure Statement (CIES). Net expenditure was not affected. The amendment did not affect the surplus on provision of services or the deficit on the collection fund reported. Related disclosure notes were amended.</p> <p>Unadjusted misstatement</p> <p>There are two unadjusted audit differences identified by our audit work which would increase the draft surplus on the provision of services in the CIES by £39,000 to £1.533 million (from £1.494 million):</p> <ul style="list-style-type: none">• The Council continues to overstate depreciation because it does not apply depreciation to fixed asset components. The amount involved as at 31 March 2014 is not material. The effect on the financial statements is to overstate the net cost of services as at 31 March 2014 by £39,000, the accumulated impact including the difference we reported in prior years means the value of Property, Plant and Equipment on the balance sheet as at 31 March 2014 is understated by £123,000.• The valuation of assets held at Depreciated Replacement Cost as at 31 March 2013 (prior year) had not been valued by the external valuer in line with the Code Requirements. The impact is to understate the value of assets by £405,000. As a consequence, the balance at 31 March 2014 is also understated. <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 2014.</p>
Control environment	We did not identify any significant deficiencies in internal controls during the course of our audit.
Governance reporting	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).
Whole of Government Accounts (WGA)	The Council's WGA is below the threshold for full assurance review. However, we are required to review the consistency of property, plant and equipment and pension balances included in the WGA data collection tool with those recognised in the statement of accounts. This work is currently in progress.
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 2014. We anticipate issuing an unqualified value for money conclusion.

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 2014. The following matters are outstanding at the date of this report.

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

- Confirmation the final amendments required have been made within the financial statements, including:
 - Revisions to the Pensions scheme disclosures (note 28)
 - Revisions to the financial instruments disclosures (note 32)
 - Amendments to the related party disclosures (note 34)
- Clearance of outstanding queries arising from the audit, in particular work on the Council's year end Debtors
- Final review of our audit work at engagement partner level, and clearance of any review points arising
- Subsequent events review
- Management representation letter, as attached in Appendix VI, to be approved and signed.
- Completion of our review of the WGA submission

TIMETABLE TO COMPLETE

The anticipated timetable to complete is as follows:

ACTIVITY	DATE
Audit Committee meeting	25 September 2014
Signing of financial statements	30 September 2014
Submission of WGA assurance report	3 October 2014

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 2014.

FEES AND NON AUDIT SERVICES	OTHER RELATIONSHIPS	LONG ASSOCIATION THREATS								
A summary of fees for audit and non-audit services for the period from 1 April 2013 to date is set out below:	We are not aware of any financial, business, employment or personal relationships between the audit team, BDO and the Council.	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.								
		<table><thead><tr><th>Key audit staff</th><th>Years involved</th></tr></thead><tbody><tr><td>Robert Grant - Audit engagement partner ⁽¹⁾</td><td>7</td></tr><tr><td>Stuart Frith - Audit Manager</td><td>4</td></tr></tbody></table>	Key audit staff	Years involved	Robert Grant - Audit engagement partner ⁽¹⁾	7	Stuart Frith - Audit Manager	4		
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<table><tbody><tr><td></td><td>£</td></tr><tr><td>Audit fees</td><td>60,990</td></tr><tr><td>Certification fees</td><td>⁽¹⁾ 11,792</td></tr><tr><td>TOTAL FEES</td><td>72,782</td></tr></tbody></table>		£	Audit fees	60,990	Certification fees	⁽¹⁾ 11,792	TOTAL FEES	72,782		
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TOTAL FEES	72,782									
⁽¹⁾ work remains on going on the housing benefit subsidy return and the fee shown above is current scale fee.		⁽¹⁾ The Audit Commission approved the extension of Robert Grant’s appointment to seven years.								

INDEPENDENCE DECLARATION AND APPROPRIATE SAFEGUARDS

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

AUDIT SCOPE AND OBJECTIVES

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 2014 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.
- 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.
- 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 2013/14 Audit Plan issued in February 2014. We have since undertaken a more detailed assessment of risk following our review of the draft financial statements, and we have <not included any additional significant risks / new risks identified>.

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

SIGNIFICANT AUDIT RISK AREAS

RISK	RELATED CONTROLS / RESPONSE TO RISK	WORK PERFORMED	CONCLUSION
MANAGEMENT OVERRIDE OF CONTROLS	<p>ISA (UK&I) 240 requires us to presume that a risk of management override of controls is present and significant in all entities.</p> <p>By its nature, there are no controls in place to mitigate the risk of management override.</p>	<p>We reviewed the appropriateness of journal entries and other adjustments made in the preparation of the financial statements. We also reviewed accounting estimates for evidence of possible bias.</p>	<p>As highlighted below, journals processed in the year were not always supported by full documentation. However, no issues arose from our review of the appropriateness of journal entries and other adjustments made in the preparation of the financial statements. Our work on accounting estimates has not identified any evidence of bias.</p>
REVENUE RECOGNITION	<p>Auditing standards presume that there are risks of fraud and error in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the Council stated accounting policies or from an inappropriate use of estimates in calculating revenue.</p>	<p>We substantively tested a sample of income streams to supporting documentation to confirm that income had been accurately recorded and earned in the year.</p> <p>We substantively tested an extended sample of receipts either side of the year end to ensure that income was complete and accounted for in the correct period.</p> <p>Audit procedures have been carried out to review an extensive sample of grants and other contributions to ensure that they have been recognised correctly in the financial statements or deferred where applicable.</p>	<p>No issues have been identified from our testing of income streams and year end transactions for the recognition of revenue in the relevant financial year.</p>

FINANCIAL STATEMENTS

Key audit and accounting matters (continued)

SIGNIFICANT AUDIT RISK AREAS			
RISK	RELATED CONTROLS / RESPONSE TO RISK	WORK PERFORMED	CONCLUSION
JOINT WASTE PARTNERSHIP TRANSACTIONS	As a participant Authority in the East Sussex Joint Waste Partnership, Hastings needs to ensure it has appropriately accounted for both its share of the cost of the new waste collection bins purchased by the lead Authority and any other assets identified for inclusion in the financial statements. The value of transactions is significant, and failure to account for these appropriately could result in a material misstatement in the financial statements.	We reviewed and discussed the proposed accounting treatment for transactions involving the Partnership against the requirements of the Code of Practice and ensure appropriate disclosures have been included within the financial statements.	We have confirmed that the Council has included appropriate information in respect of the new contract and associated transactions within the financial statements.

SIGNIFICANT ACCOUNTING ESTIMATES AND MANAGEMENT JUDGEMENTS	
	CONCLUSION
<p style="text-align: center;">WORK PERFORMED</p> <p>PENSION LIABILITY</p> <p>The Audit Commission has obtained an independent review of all local government pension scheme actuaries, which includes an assessment of their independence, objectivity and experience, and also the reasonableness of the assumptions used in the calculation of the scheme liabilities. We have reviewed this and checked that the assumptions used for the Council's scheme liabilities are within reasonable levels.</p> <p>We have also sought assurances from the auditor of the pension fund over the information on membership data and scheme assets provided to the actuary.</p>	<p>The net pension liability of the Council comprises its share of the market value of assets held in the East Sussex County Pension Fund, administered by East Sussex County Council, and the estimated future liability to pay pensions for its current, deferred and retired members of the pension scheme. 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.</p> <p>Management has agreed the assumptions made by the actuary to support the estimate and these are disclosed in the financial statements. We have requested written representations from the Council to confirm that the assumptions applied by the actuary are reasonable and consistent with its knowledge of the business of the Council.</p> <p>We are satisfied that the actuary is suitably independent of the Council, objective and experienced in undertaking this work. Our review of the assumptions applied in estimating the pension liability suggest that these are generally not significantly different from those being applied by the actuaries of other local authorities.</p> <p>We obtained a letter of assurance from the auditor of the pension fund regarding controls over the submission of data from the pension fund to the actuary.</p>

FINANCIAL STATEMENTS

Key audit and accounting matters (continued)

SIGNIFICANT ACCOUNTING ESTIMATES AND MANAGEMENT JUDGEMENTS		
	WORK PERFORMED	CONCLUSION
VALUATION OF LAND AND BUILDINGS	<p>Year end audit procedures have included review of the property valuations the Council has requested in the year, and confirmation that appropriate amendments and disclosures on the movements have been made in the financial statements.</p> <p>The review has included consideration of the basis for the valuation and, in particular where the basis is the Depreciated Replacement Cost (DRC), whether the valuations obtained accord with the required 'Instant Build' basis as set out in the Code.</p>	<p>Depreciated replacement cost (DRC) valuations</p> <p>The Code specifies the use of an instant build approach for valuing specialised assets on a DRC basis and the CIPFA Property Handbook (2012) explains that this method means that finance costs relating to site acquisition and building construction should be excluded from the valuation. During the audit it was noted that prior year DRC valuations by the valuer were not carried out on an 'instant build' approach and therefore incorrectly included finance charges, although current year valuations were completed correctly.</p> <p>Revised valuations on an instant build approach were requested from the valuer for all assets revalued in 2012/13 and this indicated that the value of other land and building was understated by £405,000 at 31 March 2013. The total understatement of property, plant and equipment and associated reserves (revaluation reserve and capital adjustment account) of £405,000 at 31 March 2013 is not material and therefore no prior period adjustment is required to restate the 2012/13 comparatives in the current year financial statements.</p> <p>We have included the amount as an unadjusted error within Appendix II.</p>
PROVISION FOR NNDR APPEALS	<p>The 2013/14 financial statements record, for the first time, the revised accounting and associated disclosure requirements in respect of the collection and use of National Non Domestic Rates (NNDR).</p> <p>We have reviewed the disclosures made within the Collection Fund for completeness, including assessment of the provision for the outcome of the ongoing and future appeals over the rateable values for individual properties.</p>	<p>The Council has included appropriate disclosure of the provision for NNDR appeals balance and associated provision in the Collection Fund.</p> <p>Review of the data supporting the calculation of the appeals provision, and review of information that has become available since the year end, has identified a significant appeal determined by the Valuation Office. The reduction in the rateable value is significant and utilises a significant amount of the provision calculated by management as at 31 March 2014.</p> <p>In order to ensure the remaining provision remains appropriate, based on the Council's assessment of the likely success of individual appeals, the Council has amended the financial statements to include a specific additional provision (£250,000) to reflect the impact of the successful appeal. The Chief Financial Officer concludes there are no other significant influences affecting the provision. We are satisfied the provision is materially correct.</p>

FINANCIAL STATEMENTS

Key audit and accounting matters (continued)

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES

	WORK PERFORMED	CONCLUSION
DEPRECIATION ON COMPONENT ASSETS	We have reviewed the Council's compliance with the Code in respect of the identification of significant components of material property, plant and equipment assets, and the subsequent assessment of an appropriate useful life and charging of relevant depreciation in accordance with the Council's policies.	<p>We have previously reported the Council concluded that a number of properties fell within the Code's definition to be componentised and appropriate valuations were obtained. The Council has reviewed the amount of depreciation involved and has chosen not to charge services based on its componentisation policy because the value is immaterial.</p> <p>As a consequence, we have estimated the amount of depreciation charged to services for the Council's buildings in the 2013/14 financial year is overstated by £39,000. In previous years, we estimated the additional depreciation charge as £84,000. Depreciation on the Council's fixed assets is therefore overstated on the balance sheet as at 31 March 2014 by £123,000. The amount should be reversed through the Movement in Reserves Statement and there is no impact on the Council's useable reserves. We have included the amount as an estimation error at Appendix II.</p>
IAS 19 RESTATEMENT	We reviewed the financial statements for the current and prior year to ensure the new accounting requirements of IAS19 (Employee Benefits) were met.	We have reviewed the adjustments completed by the Council in response to the changed requirements and are satisfied that the appropriate amendments have been made to the financial statements.
COLLECTION FUND	Our testing of the collection fund identified that the Council had disclosed the business rate tariff payment made to the Government correctly as a cost in the Comprehensive Income and Expenditure Statement (CIES). The disclosure of income and expenditure on the face of the CIES was misstated by £5.016 million.	The Council amended the CIES and the associated disclosure notes to correct the £5.016 million overstatement. We are satisfied the financial statements are materially correct for this transaction.

FINANCIAL STATEMENTS

Key audit and accounting matters (continued)

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES

	WORK PERFORMED	CONCLUSION
ACCOUNTS DISCLOSURES	<p>As part of our work on the financial statements we complete a detailed review of the accounts disclosures made, specifically considering whether the disclosures in the financial statements are in line with the code of practice and accounting standards.</p>	<p>As a result of this review, as well as discussions arising from the audit, we have identified a number of amendments and these have been reflected within the revised financial statements.</p> <ul style="list-style-type: none">• Revision to the note setting out adjustments between accounting basis and funding basis (note 7) to ensure amounts were correctly disclosed• Additional disclosure in respect of the Council's Compulsory Purchase of Hastings Pier (Note 12)• Removal of a negative provision from the accounts (note 21)• Adjustment of disclosures in respect of the transactions on the Collection Fund Adjustment Account (note 22)• Inclusion of additional required disclosures on the charges made to the CIES, analysis of scheme plan assets and actuarial assumptions in respect of the Council's pension liabilities (note 28)• Update to the disclosures of financial instruments to ensure consistency of items (note 33)• Additional disclosures in respect of related party transactions to ensure completeness (note 34)• Adjustment to the note detailing amounts reported for resource allocation decisions to agree to amounts within the CIES (note 38)

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 2014.

CONTROL ENVIRONMENT

Significant deficiencies and other observations

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. We did not identify any significant deficiencies in internal controls as a result of our audit work.

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
PURCHASE ORDERS	<p>As in 2012/13, testing of controls in relation to the purchase order system identified an instance where purchase orders were requisitioned and then authorised by the same individual. This occurred where the individual was temporarily acting up to a higher grade and was assigned enhanced authorisation privileges.</p> <p>Management confirmed the software supplier had not adequately addressed the weakness and that it was likely the instance identified by our sample was not isolated.</p> <p>Internal Audit carried out a review and obtained a report from the purchase order system confirming the number and value of transactions affected by the weakness in control. We reviewed Internal Audit's work and are satisfied the value of transactions involved is trivial. No evidence of fraud was found.</p>	<p>If purchase orders are placed and authorised by the same individual, the Council may incur unnecessary expenditure and the risk of fraud may increase.</p>	<p>The Council should ensure its stated procedures, to ensure all purchase orders are independently authorised, are consistently followed.</p>

CONTROL ENVIRONMENT

Significant deficiencies and other observations (continued)

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION
JOURNAL PROCESSING	<p>Testing of the processes surrounding the preparation, processing and authorisation of journals identified the following issues:</p> <ul style="list-style-type: none"> two instance where no supporting evidence was attached to a journal four instances where Agresso emails generated automatically to confirm authorisation were not available. 	<p>If the processing of journals is not supported by appropriate supporting evidence of the need and subsequent authorisation, the Council may make inappropriate entries within the financial statements.</p>	<p>The Council should ensure implements appropriate procedures to ensure journals are supported by appropriate evidence.</p>
HOUSING BENEFIT RECONCILIATION	<p>The quarterly reconciliation of the Housing Benefit payments made, as recorded within the benefits system, had not been reconciled to the general ledger throughout the year.</p>	<p>Failure to complete regular reconciliations may not enable the prompt identification and resolution of errors.</p>	<p>The Council should ensure it develops and implements updated procedures for the completion of Housing Benefit reconciliations.</p>

We made the observations reported to you above during the course of our normal audit work. Management responses to our recommendations 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, were prepared and provided to us for audit on 30 June 2014.

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. Audit working papers were provided to us on the first day of the audit, and as necessary as work was undertaken on the audit.

CONCLUSIONS AND AUDIT ISSUES

Although we received a copy of the financial statements in line with the Government's timetable, a number of amendments were made to these accounts in the days immediately after preparation and signature by the Chief Finance officer.

We have reviewed these amendments and note that they resulted in changes to the following figures within the core financial statements:

- Total comprehensive income (and expenditure) increased from £5.543 million to £5.477 million
- Total useable reserves increased from £19.865 million to £20.454 million
- Total Authority reserves increased from £64.472 million to £65.082 million

We are satisfied these amendments and associated changes to the supporting notes to the accounts are appropriate.

ANNUAL GOVERNANCE STATEMENT

We are required to review the draft annual 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 Councils review of effectiveness and our knowledge of the Council.

CONCLUSIONS AND AUDIT ISSUES

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).

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 based on, 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.

WHOLE OF GOVERNMENT ACCOUNTS

Consistency of the Data Collection Tool

SCOPE OF THE REVIEW OF THE DATA COLLECTION TOOL

We are required to perform tests with regard to the WGA return prepared by the Council for use by the Department of Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level.

This work requires checking the consistency of the WGA return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.

CONCLUSION AND AUDIT ISSUES

The Council's WGA is below the threshold for full assurance review. However, we are required to review the consistency of property, plant and equipment and pension balances included in the WGA data collection tool with those recognised in the statement of accounts. This work is currently in progress.

ASSURANCE STATEMENT

We are still completing our work.

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).

AUDIT COMMISSION SPECIFIED CRITERIA

Our principal work in arriving at our value for money conclusion was comparing the Council's performance against the requirements specified by the Audit Commission in its guidance to auditors.

This is based on the following two reporting criteria:

- The organisation has proper arrangements in place for securing financial resilience.
The focus of the criteria is that the Council has 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.
The focus of the criteria is that the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

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

- the Council's system of internal control as reported on in its annual governance statement
- the results of the work of the Commission, other inspectorates and review agencies
- any work mandated by the Commission
- any other locally determined risk-based value for money work that auditors consider necessary to discharge their responsibilities.

FOCUS OF REVIEW

We have reviewed the Council's arrangements against risk indicators and key issues facing the sector including the Government's spending review, funding over the medium term, risks arising from welfare reform, and risks from the localisation of business rates.

In our audit plan we reported the follow significant risks to the Council:

- Identification of further efficiency savings to underpin delivery of the Council's Medium Term Financial Strategy.

We also review the Council's relative performance against the VfM Profile Tool and Financial Ratios Analysis Tool produced by the Audit Commission, issues arising from VfM Briefings provided by the Audit Commission, and the key assumptions in the Medium Term Financial Strategy.

USE OF RESOURCES

Financial resilience

The financial resilience criterion has three aspects: financial governance, financial planning and financial control.

FINANCIAL RESILIENCE

Through the work of both the Cabinet and the Senior Management Team the Council continues to have strong leadership on financial matters, with stakeholders (including staff) being able to contribute to the development of financial plans.

The Council's annual budget preparation and medium term financial planning processes ensure Hastings' priority areas for service improvement and delivery are reflected in financial plans, and consider the known and forecast impact of resource changes in the short to medium term. The Council continued to manage its resources effectively throughout the year, with the level of expenditure on services being £2.418 million less than the revised budget amount.

The achievement of efficiency plans and the receipt of transitional funding from the Government in prior years enabled the Council to increase the level of earmarked reserves by £3.223 million to £19.045 million as at 31 March 2014. The General Fund balance continues to be maintained at the benchmark level of £500,000. 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.

The Council continues to consider the scope for the further savings required in the light of the known financial settlements and its assessment of the anticipated future funding reductions. The financial position is balanced in the period to 31 March 2015, and includes the planned use of £0.822 million of its earmarked reserves (in line with the Council's approach for the gradual use of transitional funding). However, significant resource gaps of £5.172 million have been identified over the remaining two years covered by the MTFs (as approved by Cabinet in November 2013).

Cabinet continues to consider options for reshaping service delivery and action to be taken to address the shortfall, principally through the implementation of the financial planning and efficiency programme. However, pressure will be placed on the Council's general and earmarked reserves and there remains little room for manoeuvre should any demand-led expenditure pressures arise during the financial year.

AUDIT ISSUES AND IMPACT ON CONCLUSION

Significant resource gaps have been identified over the 2015/16 to 2016/17 period (£5.2 million), resulting in further pressure being placed on the Council's general and earmarked reserves. Ensuring financial balance over the medium term planning horizon will continue to require strong action by the Council.

USE OF RESOURCES

Challenging economy, efficiency and effectiveness

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

CHALLENGING ECONOMY EFFICIENCY AND EFFECTIVENESS

AUDIT ISSUES AND IMPACT ON CONCLUSION

The Council continues to have an effective programme of value for money service reviews (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 continues enables the integration of the service and financial planning approach and provides evidence the Council considers the impact of its expenditure plans on future service performance.

No areas of concern

The 'PIER' process continues to identify changes to the provision of services across Hastings, with further major changes to initial customer contact arrangements for service users being developed and due to be implemented in 2014/15. The rationalisation of office accommodation and the letting of spare capacity within the Council Offices, and the development of more flexible working arrangements for staff to facilitate these opportunities continued throughout the year. Reduced costs secured from the delivery of PIER review outcomes and the planned reductions in expenditure, are reflected in financial budgets and the MTFP. The delivery against operational service plans, including the planned efficiency savings, are monitored through regular reports to Cabinet and Scrutiny Committees.

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. Contracts are commencing in line with the agreed timetable at each local authority and in Hastings, the new service arrangements commenced in July 2013.

The Council continues to work with partners to achieve economic regeneration and development in the St Leonards area. The Council is now working towards a regeneration project (known as '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.

Performance towards corporate priorities

The Council has continued to report positive performance against the majority of corporate plan areas in 2013/14 with the majority of targets (67) being delivered and the associated performance measures being met or exceeded. Where performance has not met expectations, the Council investigates the reasons and takes the corrective action necessary to improve performance. As at 31 March 2014, the Council Plan targets and performance indicators shown overleaf were not fully achieved at the year-end:

CORPORATE PLAN TARGET	2013/14 'RAG' RATING	PERFORMANCE
Ensuring all local businesses where the Council is the enforcement agency for food hygiene and health and safety enforcement, meet hygiene and health and safety requirements for staff and customers	Amber	86% of the programmed food hygiene inspections were completed Percentage of broadly compliant premises is 93% (slight improvement on prior year - backlog of inspections due to be cleared).
Work with partners to bring forward viable plans for the future development and maintenance of the former Millennium Community sites at Ore Valley.,	Amber	Hastings & Bexhill Renaissance Limited Board approval has been granted to market Phase 4 of the Ore Valley site and suitable agents are being appointed.
Complete the Townscape Heritage Initiative for the conservation and repair of specific buildings in the Central St. Leonards Renewal Area	Amber	Anticipated that all outstanding grant works will complete towards the end of 2014
Provide a comprehensive communications service for the Council (internal and external)	Amber	Visits increased by 1.9%
Web visits and page views increased by 10% year on year, increase number of twitter followers by 50%		'Hits' increased by 4%
Consolidate all operational staff into Aquila House	Amber	Most operational staff were relocated

PERFORAMCNE INDICATOR

Improved street and environmental cleanliness (levels of litter)	Not Met	Actual = 7% Target = 4%
Number of private sector dwellings (units) brought in line with the current statutory standard,	Not Met	Actual = 134 Target = 200
% major residential & commercial planning applications determined within 13 weeks or as agreed with the applicant within the set periods or as agreed with the applicant	Not Met	Actual = 67.6% Target = 70%
% minor residential & commercial planning applications determined within 8 weeks or as agreed with the applicant	Not Met	Actual = 80.3% Target = 85%
Net number of new homes built	Not Met	Actual = 133 Target = 200

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 2014. 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 person(s) 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
SeRCOP	Service Reporting Code of Practice for Local Authorities issued by CIPFA / LASAAC
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

There were no differences that have been corrected in the revised draft financial statements that affect the reported surplus for the year. However, a number of amendments to classifications have been made, as detailed in the 'Key Audit and Accounting Matters' section of this report.

UNADJUSTED AUDIT DIFFERENCES

There are two unadjusted audit differences identified by our audit work which would increase the draft surplus on the provision of services in the CIES by £39,000 to £1.533 million (from £1.494 million):

- The Council continues to overstate depreciation based on its decision not apply depreciation to fixed asset components. The amount involved as at 31 March 2014 is not material. The effect on the financial statements is to overstate the net cost of services as at 31 March 2014 by £39,000, the accumulated impact including the difference we reported in prior years means the value of Property, Plant and Equipment on the balance sheet as at 31 March 2014 is understated by £123,000.
- The valuation of assets held at Depreciated Replacement Cost as at 31 March 2013 (prior year) had not been valued by the external valuer in line with the Code Requirements. The impact is to understate the value of assets by £405,000. As a consequence, the balance at 31 March 2014 is also understated.

A schedule of uncorrected audit differences is included on the following pages, with misstatements recorded as factual misstatements, judgemental / estimation misstatements, or projected misstatements. We request that you correct these misstatements. Deliberate misstatement of known issues is not acceptable and identified misstatements should, where practicable, be corrected even if not material.

Management has stated that it considers these identified misstatements to be immaterial in the context of the financial statements taken as a whole.

We have also separately reported the impact of brought forward prior year uncorrected misstatements and their impact on the current year performance. These amounts remain misstatements with regard to reporting in year financial performance, but are not misstatements at the year end and cannot be corrected as these relate to previous years. Overall, the impact of prior year misstatements on current year performance have no impact on the reported underlying surplus for the current year.

APPENDIX II: AUDIT DIFFERENCES

Unadjusted audit differences

UNADJUSTED AUDIT DIFFERENCES	£'000	INCOME AND EXPENDITURE		BALANCE SHEET	
		Dr £'000	(Cr) £'000	Dr £'000	(Cr) £'000
CIES (surplus) or deficit on the provision of services before adjustments	5,657				
Dr PPE				84	
Cr Capital Adjustment Account					(84)
<i>Impact of the prior year error - Estimated depreciation in respect of non componentised material assets</i>					
Dr PPE				39	
Cr CIES - Net cost of services	(39)		(39)		
<i>Estimated depreciation in respect of non componentised material assets.</i>					
Dr PPE				405	
Cr Revaluation reserve					(405)
<i>Impact of adjustment to prior year asset valuations to ensure completed on 'Instant Build' basis in line with the requirements of the code.</i>					
TOTAL UNADJUSTED AUDIT DIFFERENCES	(3)9	-	(39)	528	(489)
CIES (surplus) or deficit on the provision of services after adjustments	5,618				

UNADJUSTED DISCLOSURE MATTERS

There are no unadjusted disclosure matters.

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	£1,652,000
Final materiality	£1,652,000
Clearly trivial threshold	£33,000

Planning materiality of £1,652,000 was based on 2% of gross expenditure, using forecast outturn from <insert>.

We have no reason to revise our final materiality level.

APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
CONTROL ENVIRONMENT				
Purchase Order Authorisation				
As in 2012/13, testing of controls in relation to the purchase order system identified an instance where a purchase order was requisitioned and authorised by the same individual. This occurred where the individual was temporarily acting up to a higher grade and was assigned enhanced authorisation privileges.	The Council should ensure its stated procedures, to ensure all purchase orders are separately requisitioned and authorised, are consistently followed.			
Journal processing				
Testing of the processes surrounding the preparation, processing and authorisation of journals identified the following issues: <ul style="list-style-type: none"> two instance where no supporting evidence was attached to a journal four instances where Agresso emails generated automatically to confirm authorisation were not available. 	The Council should ensure it implements appropriate procedures to ensure journals are supported by appropriate documentation.			
Benefit reconciliations				
The quarterly reconciliation of the Housing Benefit payments made, as recorded within the benefits system, had not been reconciled to the details recorded within the general ledger throughout the year.	The Council should ensure it implements procedures for the completion of Housing Benefit reconciliations.			

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
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USE OF RESOURCES

Financial Resilience

Significant resource gaps have been identified over the 2015/16 to 2016/17 period (£5.2 million), resulting in further pressure being placed on the Council's general and earmarked reserves..

The Council needs should continue to take the necessary steps to ensure financial balance in the medium term.

APPENDIX V: STATUTORY AND PROFESSIONALLY REQUIRED COMMUNICATIONS

COMMUNICATION REQUIRED	HOW ADDRESSED
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)	No issues
Events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (ISA 570)	No issues
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

XX September 2014

Dear Sirs

Financial statements of Hastings Borough Council for the year ended 31 March 2014

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 2014 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 2014 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 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. In particular:

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 my knowledge of the business:

Rate of inflation	2.8%
Rate of increase in salaries	4.6%
Rate of increase in pensions	2.8%
Rate for discounting scheme liabilities	4.3%
Take up option to convert the annual pension	50%

Carrying value of land and buildings - We are satisfied that the carrying value of land and buildings is materially consistent with the fair value at 31 March 2014, and that no adjustment is required either to those assets that were revalued in previous years.

Fair value measurements and disclosures - We confirm that the significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable. Specifically, the judgements in assessing the fair value of the outstanding loans are reasonable and in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Effect of componentisation - We confirm that we have reviewed the possible impact of componentisation on the annual depreciation charge and do not consider the additional depreciation charge from completing to be materially different. We have therefore decided not apply componentisation principles to the relevant assets in the accounts.

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.

After making appropriate enquiries of other members of the Council and other officers regarding disclosure of information to you as auditors, we 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 confirm that the financial statements are free of material misstatements, including omissions.

Yours faithfully

Peter Grace
Chief Finance Officer >

[date]

Councillor M Beaver
Chair of the Audit Committee

Signed on behalf of the Audit Committee

[date]



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.

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