



HASTINGS BOROUGH COUNCIL

REPORT TO THE AUDIT COMMITTEE

Audit for the year ended 31 March 2016 - Issued to the Audit Committee - 14 September 2016

PURPOSE AND USE OF THIS REPORT

We present our report to the Audit Committee which details the key findings arising from the audit for the attention of those charged with governance. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two way communication throughout the audit process.

As auditors we are responsible for performing our audit in accordance with International Standards on Auditing (UK & Ireland) which provide us with a framework which enables us to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and providing our value for money conclusion. As the purpose of the audit is for us to express an opinion on the financial statements and provide a value for money conclusion, 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.

This report has been prepared solely for the use of the Audit Committee. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person.

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



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SUMMARY

AUDIT SCOPE AND OBJECTIVES

- We have substantially completed our audit procedures in accordance with the planned scope and our objectives have been achieved, subject to the resolution of matters set out in the outstanding matters section of this report.
- There were no significant changes to our planned audit approach nor were any restrictions placed on our work.
- No additional significant audit risks were identified during the course of our audit procedures subsequent to our audit planning report to you dated 9 March 2016.
- Our materiality levels have been reassessed since our audit planning referred to above. Final materiality was set at £1.74 million. Our final triviality level (above which errors are reported within this report) was £52,000.

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AUDIT OPINION

- Subject to the successful resolution of matters set out in the outstanding matters section of this report we anticipate issuing an unqualified opinion on the financial statements for the year ended 31 March 2016.
- We have no matters to report in relation to the annual governance statement.
- We will be issuing an unqualified opinion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

KEY AUDIT AND ACCOUNTING MATTERS

- The key matters that have arisen in the course of our audit are summarised below:
 - i. A number of amendments to classifications have been made, as detailed in the 'Key Audit and Accounting Matters' section of this report. There were no differences that affect the reported deficit for the year.
 - ii. We identified a number of control weaknesses and our findings and recommendations are set out in the 'Control Environment' section of this report.
 - iii. Our use of resources work identified no significant issues. We have raised one recommendation that a formal process is put into place for identifying, assessing and reporting actual savings delivered through the Council's Priority Income and Efficiency Review (PIER) process.

OTHER MATTERS FOR THE ATTENTION OF THE AUDIT COMMITTEE

- The Council is below the audit threshold for a full assurance review of the Whole of Government Accounts (WGA) return.

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT AUDIT RISKS

We reported our risk assessment, which brought to your attention areas that require additional or special audit consideration and are considered significant audit risks, in the 2015/16 audit planning report dated 9 March 2016. These significant risks have been highlighted in red and findings have been reported in the following table.

We have since undertaken a more detailed assessment of risk following the completion of our review of the Council's internal control environment and draft financial statements, and we have not identified any additional significant risks.

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NATURE OF RISK	RISK DESCRIPTION AND RELATED CONTROLS	HOW THE RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
MANAGEMENT OVERRIDE OF CONTROLS	<p>Auditing standards presume that a risk of management override of controls is present 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 to the financial statements.</p> <p>We also reviewed accounting estimates for evidence of possible bias.</p>	<p>Our review of the appropriateness of journal entries and other adjustments made to the financial statements is still ongoing.</p> <p>Our review of controls around journal entries identified one instance in which a journal had been raised and posted to the accounting system without authorisation in line with the Council's delegated authority framework. The journal itself was for the reallocation of invoiced expenses totalling £24,000 from a holding account to the relevant service lines, and is therefore a valid journal to have been posted. However, the lack of authorisation highlights a potential control weakness. Management has confirmed that there is a compensating control in place, involving the periodic check of all journal entries by a member of the finance team, therefore we do not consider the control weakness to be significant.</p> <p>Our work on accounting estimates has not identified any evidence of bias, and further information on the key accounting estimates reviewed is provided on pages 10 to 12 of this report.</p>

KEY AUDIT AND ACCOUNTING MATTERS

Continued

NATURE OF RISK	RISK DESCRIPTION AND RELATED CONTROLS	HOW THE RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
<p>REVENUE RECOGNITION</p>	<p>Auditing standards presume that there are risks of fraud in 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.</p> <p>In particular, we consider there to be a significant risk in relation to the completeness, existence and accuracy of fees and charges income and non-specific grants and contributions income recorded in the Comprehensive Income and Expenditure Statement.</p>	<p>We carried out audit procedures to gain an understanding of the Council’s internal control environment for the significant income streams, including how this operates to prevent loss of income and ensure that income is recognised in the correct accounting period.</p> <p>We also tested an increased sample of fees and charges income to check whether income has been recorded in the correct period and that all income that should have been recorded has been recorded.</p> <p>Finally, we tested an increased sample of grant income to ensure that the point of recognition was in line with Code requirements.</p>	<p>No significant issues have been identified by our testing.</p>

KEY AUDIT AND ACCOUNTING MATTERS

Continued

OTHER AUDIT RISKS AND ACCOUNTING ISSUES

We report below our findings of the work designed to address all other risks identified in our 2015/16 audit planning report and any other relevant audit and accounting issues identified as a result of our audit: ■ Normal risk ■ Other issue

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NATURE OF RISK	WORK PERFORMED AND FINDINGS	CONCLUSION
CONSIDERATION OF RELATED PARTY TRANSACTIONS	We reviewed the Council’s procedures for identifying related party transactions for disclosure in the related parties note, including signed declaration forms from members and senior officers. We carried out Companies House checks for a sample of members and senior officers and checked the completeness of interests included in the declaration forms. We also considered the completeness of related party disclosures based on knowledge gained from our other audit work.	<p>Following issues identified during the prior year’s audit, management has significantly improved the internal control environment around the identification and disclosure of related party transactions, including carrying out its own Companies House and Charity Commission searches. As a result, there are significantly more related party transactions disclosed within the draft accounts than there were in the prior year.</p> <p>We identified one minor disclosure issue in respect of related party transactions, which was the omission of one transaction reported in the prior year’s financial statements from the comparatives in the current year accounts. Management has agreed to correct this error in the final financial statements.</p>
CLASSIFICATION OF PAYABLES AND RECEIVABLES	Following issues identified in the prior year around the classification of debtors and creditors, we reviewed the Council’s working papers apportioning balances between the different types of counter-party body.	<p>Most of the errors encountered last year have not been repeated, although we did identified two non-material classification errors as follows:-</p> <ul style="list-style-type: none"> • Long-term creditors of £857,000 with other local authorities which were incorrectly classified as all other bodies. • Long-term debtors of £168,000 which were incorrectly included as negative long-term creditors.

KEY AUDIT AND ACCOUNTING MATTERS

Continued

NATURE OF RISK	WORK PERFORMED AND FINDINGS	CONCLUSION
CAPITAL ADJUSTMENT ACCOUNT	During the audit, we were informed by management that it had identified a misclassification of £3.120 million between the Capital Adjustment Account and the Revaluation Reserve.	Management will correct this error in the final Statement of Accounts.
FRAUD AND ERROR	<p>We enquired of management regarding any instances of fraud in the period, and considered throughout the audit the possibility of material misstatements due to fraud or error.</p> <p>We are not aware of any instances of fraud other than housing benefit fraud committed against the Council.</p>	We have not identified any material fraud. All non-trivial errors identified during the audit are included within this report.

KEY AUDIT AND ACCOUNTING MATTERS

Continued

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ESTIMATES

PROPERTY, PLANT & EQUIPMENT (PPE) AND INVESTMENT PROPERTY VALUATIONS

Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) and investment properties is not materially different to the current value or fair value at the Balance Sheet date.

The valuation for land and buildings included in PPE is a management estimate based on market values or depreciated replacement cost (DRC). Management uses external valuation data to assess whether there has been a material change in the value of classes of assets and also employs an external expert (valuer) to undertake a full valuation of all PPE assets on a rolling 5-yearly basis. The indices available to management to assess valuation changes are produced independently and are based on observable data (asset sales and building contract prices).

The Code of Practice on Local Authority Accounting 2015/16 (the Code) introduced a change in the basis of valuation of surplus assets and investment properties under International Financial Reporting Standard (IFRS) 13, from existing use value (in the case of surplus assets) or market value (in the case of investment properties) to a 'highest and best use' valuation. This means that valuations may be significantly different in certain circumstances.

AUDIT FINDINGS AND CONCLUSIONS

In line with the Council's 5 yearly rolling valuation programme, the external valuers have valued property assets with a closing net book value of £42.2 million as at 31 March 2016, including all surplus assets and investment properties in line with the new IFRS13 requirements, along with 51% (by value) of the Council's other land and buildings. This resulted in a net upwards revaluation movement of £5.8 million in the year for PPE and £176,000 for investment properties.

We assessed the valuer's competence, independence and objectivity and determined we could rely on the management expert.

We reviewed the valuations provided and the valuation methodology applied, and confirmed that the basis of valuation for assets valued in year is appropriate based on Code requirements.

Our work to compare the valuations to expected movements using available market information, and to review and challenge the valuer's assumptions, is still ongoing.

TBC



PRUDENT

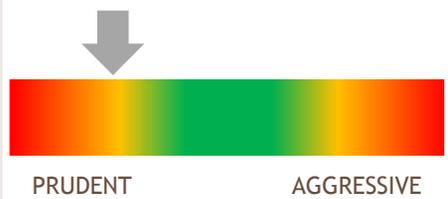
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KEY AUDIT AND ACCOUNTING MATTERS

Continued

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ESTIMATES	AUDIT FINDINGS AND CONCLUSIONS
<p>ALLOWANCE FOR NON-COLLECTION OF RECEIVABLES</p> <p>The Council's largest allowances for impairment of receivables relate to housing benefit overpayments and collection fund receivables for council tax and business rates.</p> <p>The Council has applied a flat rate 70% impairment allowance to housing benefits overpayments. For Collection Fund debtors, the impairment allowances against current year debt are based on anticipated collection rates, whilst debts from previous years are provided against in full.</p> <p>We have reviewed management's calculations and considered the reasonableness of the estimates against collection rates calculated for the current aged debt profile.</p>	<p>Overall we have concluded that the impairment allowances for receivables are not materially misstated, although they are likely to be on the prudent side.</p> <p>The impairment allowance for housing benefit overpayments at 31 March 2016 is £1.912 million, a decrease of £74,000 from the prior year, against an overpayments balance of £2.731 million. The Council has applied a provision rate of 70% to all overpayments, which is a reduction from the 80% used in the prior year. The Council has carried out some analysis in year which suggests that actual collection rates could be higher (at around 60%), and therefore there is a risk that the provision is over-prudent. The exact impact of this will depend upon the level of old debts within the outstanding balance, which are less likely to be recovered - however we are satisfied given the levels of debt involved that it will not be material.</p> <p>The total impairment allowance for council tax in the Collection Fund at 31 March 2016 is £3.897 million, a decrease of £371,000 from the prior year, against total arrears of £5.509 million. The Council has a 14.2% share in these balances.</p> <p>The total impairment allowance for NDR in the Collection Fund at 31 March 2016 is £831,000, an increase of £73,000 from the prior year, against total arrears of £1.130 million. The Council has a 40% share in these balances.</p> <p>For both of these balances, the Council has calculated its provision by applying anticipated total collection rates to gross 2015/16 amounts receivable, regardless of the year-end cash position. The Council has also provided 100% against balances outstanding from previous years. This methodology is likely to be on the prudent side, as historic experience shows that council tax and NDR amounts are often recovered several years after they fall due.</p> <p>We repeat our recommendation from last year's audit that management carries out a more detailed exercise to establish actual historic collection rates for collection fund debtors in order to calculate a more accurate provision going forwards.</p>



KEY AUDIT AND ACCOUNTING MATTERS

Continued

FINANCIAL STATEMENT DISCLOSURES

Our views on the sufficiency and content of your financial statements' disclosures are set out below:

DISCLOSURE AREA	AUDIT FINDINGS AND CONCLUSIONS
<p>ACCOUNTING POLICIES</p>	<p>The accounting policies presented in the draft financial statements were broadly satisfactory. We have made the following observations and recommendations to management:</p> <ul style="list-style-type: none"> • The Council's capitalisation threshold of £50,000 is relatively high in the context of its size. We would recommend that management consider reviewing this for future years. • The policy on property, plant and equipment requires updating as a result of the adoption of IFRS 13 this year, and the Council's new timetable for the valuation of these assets. • We have recommended the removal of a small number of policies or parts of policies on materiality grounds, including the policy on investment properties, and parts of the policies on financial instruments and leases. • The Code requires the Council to name the accounting standards issued but not yet adopted - this has not been done within the draft Statement of Accounts. • We have recommended that management considers adding some disclosure around the valuation of property assets to the 'Assumptions made about the future and other major sources of estimation and uncertainty' note. <p>Management has provided a revised draft of the financial statements, and we are in the process of reviewing this.</p>
<p>EVENTS AFTER THE REPORTING PERIOD</p>	<p>It is possible that the result of the EU referendum may have a material effect on the value of the Council's pension liability in the future, as this will be impacted by a number of economic factors including the discount rate used.</p> <p>We would encourage management to consider whether this requires disclosure as a non-adjusting event after the reporting period.</p>

KEY AUDIT AND ACCOUNTING MATTERS

Continued

DISCLOSURE AREA	AUDIT FINDINGS AND CONCLUSIONS
OTHER DISCLOSURE ISSUES	<p>We have identified the following disclosure issues within the first draft financial statements:</p> <ul style="list-style-type: none"> • Within the Termination Benefits and Exit Packages note, two exit packages were disclosed within the incorrect cost band. The total value of packages disclosed was correct. • Within the Employee Remuneration table showing employees whose emoluments were greater than £50,000, one employee was disclosed within an incorrect band. The total number of employees disclosed was correct. • The draft Members Allowances note excluded some certain allowances which should have been included. As a result, total members allowances were understated by £10,000, and expenses understated by £1,000. The average sum per Councillor was also understated by £352. • There were a number of non-material errors within the council tax section of the draft Collection Fund Statement in respect of the precepts and demands on the collection fund, the previous year surplus, and the apportionment of these amounts between the precepting bodies. There was no impact on the overall Collection Fund expenditure total or the closing Collection Fund balance. • A small number of errors have been identified within the Financial Instruments note, and we are currently working with management to resolve these.

KEY AUDIT AND ACCOUNTING MATTERS

Continued

OTHER MATTERS

We are required to communicate certain other matters to you. We deal with these below, either directly or by reference to other communications.

MATTER	COMMENT
1 Our responsibility for forming and expressing an opinion on the financial statements	See our audit planning report to you dated 9 March 2016.
2 An overview of the planned scope and timing of the audit	See our audit planning report to you dated 9 March 2016.
3 Significant difficulties encountered during the audit	We have no matters to report.
4 Significant matters arising from the audit that were discussed with management or were the subject of correspondence with them, and any other matters arising from the audit that in our judgment are significant to the oversight of the financial reporting process	We have no matters to report.
5 Written representations which we seek	These are reproduced at Appendix VII.
6 Any fraud or suspected fraud issues	We have no matters to report.
7 Any suspected non-compliance with laws or regulations	We have no matters to report.
8 Uncorrected misstatements, including those relating to disclosure	We have no uncorrected misstatements to report.
9 Significant matters in connection with related parties	We have no matters to report.

OUTSTANDING MATTERS

We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2016, and anticipate issuing an unqualified opinion on the financial statements.

The following matters are outstanding at the date of this report. We will update you on their current status at the **Audit committee** at which this report is considered:

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- 1 Completion of review of outstanding audit work in a small number of areas, including journals testing, and property valuations
- 2 Completion of Manager and Partner review of the audit file and clearance of any issues arising
- 3 Receipt of outstanding bank and lender confirmations
- 4 Receipt and checking of final Statement of Accounts incorporating all agreed audit adjustments
- 5 Subsequent events review
- 6 Management representation letter, as attached in Appendix VII to be approved and signed



OTHER REPORTING MATTERS

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

	MATTER	COMMENT
1	<p>The draft financial statements, within the Statement of Accounts, was prepared and provided to us for audit on 30 June 2016.</p> <p>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.</p>	<p>Draft accounts, working papers and other supporting audit evidence has been provided to us in accordance with the agreed timetable.</p> <p>We would like to thank the finance team for their assistance throughout the audit process.</p>
2	<p>We are required to review the draft Annual Governance Statement and be satisfied that it meets the disclosure requirements in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007. We are also required 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.</p>	<p>We have no significant matters to report. However, we have identified some scope for improvement within the 'Significant governance issues' section, in terms of providing a more detailed outline of the actions taken, or proposed, to deal with the significant governance issues in relation to the authority achieving its vision as identified by management.</p> <p>A small number of other minor updates and corrections have also been suggested to management.</p>
3	<p>We are required to read all the financial and non-financial information in the Narrative Report 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.</p>	<p>We have reviewed the Narrative Report, and raised a number of minor queries and suggestions for improvement with management, such as removing the very detailed budget outturn list, and including commentary on the financial outturn, especially the larger budget variances. Overall, we have identified no material inconsistencies with the audited financial statements or knowledge acquired by us in the course of performing the audit.</p> <p>Management has provided a revised version of the Statement of Accounts, which we are in the process of reviewing.</p>

CONTROL ENVIRONMENT

Deficiencies and 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.

As the purpose of the audit is for us to express an opinion on the Council's 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 controls 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 controls.

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SIGNIFICANT DEFICIENCIES

We have identified no significant deficiencies in internal control during the course of the audit.

OTHER DEFICIENCIES AND OBSERVATIONS

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION
MANUAL JOURNAL AUTHORISATION	Our review of controls around manual journals identified one journal which had been posted to Agresso without having been authorised by a second individual in line with the Council's delegated authority framework. Management have confirmed that this is a recurring issue, although compensating controls are in place.	Whilst the existence of compensating review controls provides some assurance, the ability to post journals to Agresso without appropriate authorisation does highlight a potential risk that inappropriate or fraudulent journals may be posted.	We recommend that management reviews existing controls over journal entries. Ideally, a system enforced control should be put into place so that journals are not posted to the ledger until the appropriate authorisation has been given within Agresso.
SUPPLIER BANK DETAILS CHANGES	There are no formal controls in place around changes to supplier bank details.	This increases the risk that the Council could fall victim to internal or external fraud.	We recommend that management put into place a formal control mechanism as soon as possible, for example system enforced authorisation of changes to bank details, or a periodic review of changes made by an appropriate officer.

CONTROL ENVIRONMENT

Other deficiencies and observations

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION
HOUSING BENEFIT CHECKING	The Council carries out a risk-based checking process on a percentage of new housing benefit claims and changes of circumstances. However, we found that, where errors are identified, there is no evidence retained that these have been followed up or corrected.	The effectiveness of the random checking control will be significantly reduced if actions arising are not carried out.	We recommend that management put into place a formal process for checking that errors identified are subsequently corrected, and that other action is taken if required (e.g. retraining of assessors). We note that the checking spreadsheets already have a 'date corrected' column, but this is not routinely used.
RETROSPECTIVE PURCHASE ORDERS	Our walkthrough testing of purchasing controls identified one instance where a purchase order was raised in Agresso subsequent to a service being provided to the Council and an invoice being received. Similar cases have been identified by internal audit in the previous year.	Failure to obtain authorisation prior to orders being placed with the supplier introduces a risk that the Council may be exposed to inappropriate or inefficient expenditure, and reduces the effectiveness of the procurement and three-way matching controls in place.	We recommend that management takes action to ensure that all officers are aware of the requirement to obtain authorisation for purchase requisitions prior to orders being placed, and implements a monitoring control to identify cases where this is not adhered to, and take further action where necessary.

WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

MATTER	COMMENT
<p>Auditors are required to review Whole of Government Accounts (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.</p> <p>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.</p>	<p>The relevant section of the assurance statement will be submitted to the National Audit Office (NAO) upon completion of our audit.</p>

USE OF RESOURCES

Key informed decisions, deployed resources and sustainable outcomes

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 reporting criterion:

- In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

There are three sub criteria that we consider as part of our overall risk assessment:

- Informed decision making
- Sustainable resource deployment

Working with partners and other third parties

We reported our risk assessment, which included use of resources significant risks, in the 2015/16 Audit Plan issued on 9 March 2016. 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 included any additional significant risks.

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

USE OF RESOURCES

Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
<p>SUSTAINABLE FINANCES</p>	<p>The Council’s Medium Term Financial Strategy was last refreshed in November 2015, and covers the period up to 2018/19. The Strategy assumes reductions in Government core grant funding of 12% per year over this period, alongside other funding pressures such as annual inflation and pay awards.</p> <p>The forward budget was updated again in February 2016 following receipt of the government funding settlement for 2016/17, and now shows a balanced budget (after the use of reserves) in 2016/17, followed by a £0.5 million funding shortfall in 2017/18, and a £1.5 million shortfall in 2017/18. The budget also assumes net use of earmarked and other reserves for revenue purposes of £2.2 million in 2016/17, followed by a further £1.0 million in each of 2017/18 and 2018/19.</p> <p>The Council has implemented a process known as the Priority Income and Efficiency Reviews (PIER) model in order to identify savings and look for opportunities to maximise revenue. This has identified total savings of £1.8 million over the three year life of the MTFS, which are already taken into account within the funding shortfalls described above. It is clear that the Council faces a significant challenge to close the funding gap and is likely to require difficult decisions to be made around service provision and alternative delivery models.</p> <p>The current rate at which earmarked reserves are being drawn down is not sustainable in the long term, although we acknowledge that certain of these reserves, such as the transition reserve, have been put aside specifically to assist the Council in its transition to a lower spending Council. The pace of change required to deliver a sustainable financial position will present a challenge to the Council.</p>	<p>As a starting point for reviewing the reasonableness of the assumptions in the MTFS, we have assessed the financial performance of the Council and delivery of budgeted savings in 2015/16.</p> <p>The original 2015/16 budget set in February 2015 set net Council expenditure of £17.2 million (excluding the planned utilisation of reserves). Actual net Council expenditure was lower than budget at £15.6 million. Grant and taxation income was also £0.5 million above budget. The total favourable variance of £2.1 million meant that the planned drawdown of earmarked and other reserves of £2.1 million in year was in fact not required.</p> <p>Significant variances from plan included a £503,000 underspend on housing benefit payments which are largely demand driven, a £136,000 underspend on financial services related to severance payments, and a £106,000 underspend on rogue landlords following the receipt of additional funding.</p> <p>The above budget assumed savings of £1.0 million from the PIER process in 2015/16, and further savings of £0.5 million in 2016/17, and £0.7 million in each of 2017/18 and 2018/19 have been built into the latest budget round. The source of the savings has been identified and is set out in full within the Council’s budget document. We note that the proposed savings for 2016/17 and 2017/18 have been reduced significantly from those set out within the February 2015 budget, when figures of £1.7 million and £1.8 million respectively were quoted.</p> <p>The net underspend in year, which followed a net underspend against original budget of £2.6 million in 2014/15, provides evidence that the Council is successfully managing to reduce net expenditure, which will be partly through driving efficiencies identified through the PIER process.</p>

USE OF RESOURCES

Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
<p>SUSTAINABLE FINANCES (continued)</p>		<p>However, we note that there is no formal reporting on the outcomes of the proposed efficiency measures and actual savings generated, and this may be something the Council wishes to consider in the future to further enhance the process and ensure that the actions being taken are effective.</p> <p>We have reviewed the major assumptions underpinning the MTFs, and we are satisfied that these are broadly reasonable. Some detailed work is still ongoing, and we will update the Audit Committee with any additional findings at their meeting on 22 September 2016.</p> <p>It is clear that the Council still has some work to do to close the funding gap in future years, and the planned use of earmarked and other reserves of £4.2 million over the three-year period from 2016/17 to 2018/19 is clearly not sustainable in the long term. However, this should be seen in the context of the fact that the Council has a high level of earmarked reserves (£20.3 million at 31 March 2016), which places it in the highest 5% of all district councils. Therefore, some planned usage of these reserves in the medium term will not pose a threat to the long term sustainability of the Council, provided that efforts to transition to a lower cost Council are successful.</p>

USE OF RESOURCES

Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
<p>VALUE FOR MONEY PROFILE TOOL</p>	<p>We reviewed PSAA Ltd’s value for money profile tool, which benchmarks the Council against other district Councils in a number of key areas. Note that, due to delays in uploading the relevant data (for example financial data cannot be uploaded until after accounts have been audited, some of the data reviewed relates to previous financial years). Nevertheless, this provides a useful indication of the Council’s financial and non-financial performance in key areas, as well as providing contextual information such as indicators of deprivation.</p> <p>We used the data to identify outliers which may indicate additional VFM risks.</p>	<p>Our review of the VFM profile tool identified no additional significant VFM risks.</p> <p>During 2014/15, the Council’s net spend per head remained the highest in the country at £760.88, compared to a national average for district councils of £398.40. This represented a slight reduction of 0.2% from the previous year. Underpinning this, the Council was in the highest 10% for spending per head on council tax and housing benefits administration, culture and sport, housing services, and sustainable economy.</p> <p>The high costs within the Council are driven primarily by deprivation, with the Council falling within the highest 5% of all districts 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 contextual indicators which tend to follow high levels of deprivation, such as the overall working age employment rate, proportion of children in poverty, and percentage of working age population claiming jobseekers’ allowance.</p> <p>The Council is continuing to seek ways to reduce its high cost base, for example through the ongoing PIER process.</p> <p>The VFM profile tool also highlights strong performance in the delivery of affordable housing, with the Council in the top 5% of districts for the number of additional affordable homes provided as a percentage of net additional homes (and the top 20% for the gross number of additional affordable homes provided).</p>

APPENDICES

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APPENDIX I: DEFINITIONS

TERM	MEANING
The Council	Hastings Borough Council
'Those charged with governance'	The persons with responsibility for overseeing the strategic direction of the Council and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance for financial reporting for the Council are the members of the Audit Committee.
Management	The persons 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: <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.
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.
The '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
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 deficit 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.

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UNADJUSTED AUDIT DIFFERENCES

There are no unadjusted audit differences.

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

AREA	CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT REPSONSE	RESPONSIBILITY	TIMING
FINANCIAL STATEMENTS					
PROVISIONS FOR IMPAIRMENT OF RECEIVABLES	Whilst we are satisfied that the provisions are not materially misstated, we note that for some elements of the debtor balance (such as collection fund debtors) no detailed assessment of actual historic collection rates has been carried out.	We recommend that, for each of the material elements of the provision, management carries out a more detailed exercise looking at historic collection rates and collection profile in order to better inform its provision estimates.			
CAPITALISATION THRESHOLD	We note that, at £50,000, the Council's capitalisation threshold is high in relation to its size.	We recommend that management reviews the capitalisation threshold going forwards, to ensure that it is satisfied that the aggregate effect of applying this threshold will not lead to material misstatement.			

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

Continued

AREA	CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT REPSONSE	RESPONSIBILITY	TIMIMG
CONTROL ENVIRONMENT					
MANUAL JOURNAL AUTHORISATION	Our review of controls around manual journals identified one journal which had been posted to Agresso without having been authorised by a second individual in line with the Council's delegated authority framework. Management have confirmed that this is a recurring issue, although compensating controls are in place.	We recommend that management reviews existing controls over journal entries. Ideally, a system enforced control should be put into place so that journals are not posted to the ledger until the appropriate authorisation has been given within Agresso.			
SUPPLIER BANK DETAILS CHANGES	There are no formal controls in place around changes to supplier bank details.	We recommend that management put into place a formal control mechanism as soon as possible, for example system enforced authorisation of changes to bank details, or a periodic review of changes made by an appropriate officer.			

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APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

Continued

AREA	CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
CONTROL ENVIRONMENT (CONTINUED)					
HOUSING BENEFIT CHECKING	The Council carries out a risk-based checking process on a percentage of new housing benefit claims and changes of circumstances. However, we found that, where errors are identified, there is no evidence retained that these have been followed up or corrected.	We recommend that management put into place a formal process for checking that errors identified are subsequently corrected, and that other action is taken if required (e.g. retraining of assessors). We note that the checking spreadsheets already have a 'date corrected' column, but this is not routinely used.			
RETROSPECTIVE PURCHASE ORDERS	Our walkthrough testing of purchasing controls identified one instance where a purchase order was raised in Agresso subsequent to a service being provided to the Council and an invoice being received. Similar cases have been identified by internal audit in the previous year.	We recommend that management takes action to ensure that all officers are aware of the requirement to obtain authorisation for purchase requisitions prior to orders being placed, and implements a monitoring control to identify cases where this is not adhered to, and take further action where necessary.			

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

Continued

AREA	CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT REPSONSE	RESPONSIBILITY	TIMIMG
USE OF RESOURCES					
PRIORITY INCOME AND EFFICIENCY REVIEW (PIER) PROCESS	Although PIER savings are planned in detail within the Council’s annual budget reports, there is no formal reporting back to management or Cabinet on the actual savings achieved from the implementation of the planned schemes. This could potentially limit the effectiveness of the process.	We recommend that management considers putting into place a formal process for identifying and reporting actual savings achieved against PIER schemes following their implementation.			

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APPENDIX IV: MATERIALITY

MATERIALITY - FINAL AND PLANNING

	FINAL	PLANNING
Materiality	£1,740,000	£1,910,000
Clearly trivial threshold	£52,000	£57,000

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Planning materiality of £1,910,000 was based on 2% of gross expenditure, using average expenditure for the previous 2 financial years.
We revised our materiality because the draft financial statements included a lower level of expenditure.

APPENDIX V: INDEPENDENCE

INDEPENDENCE - ENGAGEMENT TEAM ROTATION

SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDED
LEIGH LLOYD-THOMAS - Engagement lead	2	31 March 2019
JODY ETHERINGTON - Audit manager	2	31 March 2024

INDEPENDENCE - THREATS TO INDEPENDENCE AND APPROPRIATE SAFEGUARDS

We have not provided any non-audit services to the Council. Our fees are set out in Appendix VI.

We have not identified any potential threats to our independence as auditors. We are not aware of any financial, business, employment or personal relationships between the audit team, BDO and the Council.

We confirm that the firm complies with the Financial Reporting Council's Ethical Standards and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement lead and audit staff is not impaired.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

APPENDIX VI: FEES SCHEDULE

	2015/16	2014/15	THREATS TO INDEPENDENCE ARISING	SAFEGUARDS APPLIED AND WHY THEY ARE EFFECTIVE
	£	£		
Audit fee	46,418	61,890	N/A	N/A
Certification fee (Housing benefits subsidy claim)	8,844	11,792	N/A	N/A
TOTAL AUDIT FEE	55,262	73,682		
TOTAL ASSURANCE SERVICES	55,262	73,682		

APPENDIX VII: DRAFT REPRESENTATION LETTER

TO BE TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP
55 Baker Street
London
W1U 7EU

XX September 2016

Dear Sirs

Financial statements of Hastings Borough Council for the year ended 31 March 2016

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 2016 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 2015 and Statement of responsibilities of auditors and of audited bodies: local government issued by Public Sector Audit Appointments (PSAA), and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2016 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 2015, 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.

Other than disclosed in the financial statements, 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 the Code 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.

APPENDIX VII: DRAFT REPRESENTATION LETTER

Continued

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 are satisfied that the carrying value of property, plant and equipment assets at 31 March 2016 is not materially different from their current value as determined in accordance with the requirements of the Code.

The key assumptions used in the calculation of the Council's net pension liability as at 31 March 2016 are as follows:-

- Rate of increase in salaries: 4.1%
- Rate of increase in pensions: 2.1%
- Rate for discounting scheme liabilities: 3.4%
- Longevity at 65 for current pensioners: 22.2 years (men) and 24.4 years (women)
- Longevity at 65 for future pensioners: 24.2 years (men) and 26.7 years (women)

We are satisfied that each of the above assumptions is appropriate to the Council and will result in the calculation of a net liability figure which is not materially misstated.

We consider that the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

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. Each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Peter Grace
Chief Finance Officer
XX September 2016

Cllr Matthew Beaver
Chairman
Signed on behalf of the Audit Committee
XX September 2016

APPENDIX VIII: AUDIT QUALITY

BDO is totally committed to audit quality. It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. BDO welcome feedback from external bodies and is committed to implementing necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US firms), the firm undertake a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years. We have also implemented additional quality control review processes for all listed and public interest audits.

We seek to make improvements and address weaknesses identified from both external and internal quality reviews. Where issues have been identified an action plan is put in place. These plans may relate to individual assignments, individual offices, or be firm-wide, and in each instance the outcome of these actions is subject to monitoring and have been the subject of our analysis of root causes. The actions may include, but are not necessarily limited to, one or more of the following:

- The implementation, where appropriate, of relevant training for the engagement team where the issue is team specific;
- The revision and production of additional guidance in connection with the firm's audit approach where we identify that an issue is more widespread;
- The development and delivery of firm-wide training;
- Amendments and/or enhancements to stream policies and procedures.



FOR MORE INFORMATION:

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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 Council and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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