



# HASTINGS BOROUGH COUNCIL

FINAL REPORT TO THE AUDIT COMMITTEE  
Audit for the year ended 31 March 2013

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# OVERVIEW

The purpose of this report is to communicate to you the significant findings from our audit of the financial statements of Hastings Borough Council for the year ended 31 March 2013.

This summary covers those matters we believe to be material in the context of our work. However, you should read the entirety of this report, as there may be other matters raised that you consider important.

We have substantially completed our audit work in respect of the Statement of Accounts for the year ended 31 March 2013 and anticipate issuing an **unqualified** opinion subject to the outstanding matters listed on page 3.

AREA OF AUDIT	SUMMARY
Financial statements	<p>No material misstatements were identified as a result of our audit work.</p> <p>Some areas of work are still outstanding at the time of drafting this report (see page 3). Should these result in any significant issues, we will give a verbal update to the Audit Committee.</p> <p>Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified true and fair opinion on the financial statements for the year ending 31 March 2013.</p>
Unadjusted audit differences	<p>There is one unadjusted audit differences identified by our audit work. The Council continues to overstate depreciation based on its decision not apply depreciation to fixed asset components. The amount involved as at 31 March 2103 is not material. The effect on the financial statements is as follows:</p> <ul style="list-style-type: none"> <li>the net cost of services as at 31 March 2013 is overstated by £46,000</li> <li>the accumulated impact including the difference we reported in the prior year means the value of Property, Plant and Equipment as at 31 March 2013 is understated on the balance sheet by £84,000 (and accumulated depreciation overstated).</li> </ul> <p>One disclosure difference found by our audit has not been adjusted in the notes to the financial statements. The Council is following the advice given by its financial advisers and has not included its deposit guarantee for the Local Authority Mortgage Scheme (£2 million book value) as a financial instrument. The Council has explained the situation and included the book value and its estimate of the fair value of the deposit in a footnote.</p>
Internal controls	<p>Internal Audit found one significant deficiency in financial controls which should be addressed.</p> <p>The Council should ensure purchase orders are authorised in accordance with Council procedures.</p>
Annual Governance Statement	<p>We were satisfied that the Annual Governance Statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with “Delivering Good Governance in Local Government” (CIPFA / SOLACE)</p>
Whole of Government Accounts (WGA)	<p>We were satisfied that the WGA return was consistent with the financial statements.</p>
Use of resources	<p>The Council has appropriate arrangements in place to ensure financial resilience and to secure value for money from its use of resources.</p> <p>Significant resource gaps have been identified in the two year period to 2015/16 (£3.8 million) and further pressure is being placed on the Council’s available general and earmarked reserves. Ensuring financial balance over the medium term planning horizon will continue to require strong action by the Council.</p>
Value for Money Conclusion	<p>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 2013. We propose issuing an <b>unqualified</b> value for money conclusion.</p>

# OVERVIEW

## Audit status and timetable to completion

### AUDIT STATUS

We have substantially completed our audit work in respect of the financial statements for the period ended 31 March 2013, 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 meeting on 25 September 2013.

#### Local Authority Mortgage Scheme (LAMS)

The Audit Commission has contacted auditors to be aware that guidance has been issued by financial advisers about the LAMS scheme. The guidance, which Hastings is following, suggests that support given through the LAMS should be treated as capital expenditure. However, alternative legal advice has been produced suggesting the transactions are revenue in nature. The Audit Commission is reviewing its understanding of the legal position in discussion with its own legal advisers. Further guidance to auditors on this matter is awaited. We are continuing to discuss this matter with officers.

#### Other work in progress

We are continuing to work with officers in the following areas:

- obtaining an external confirmation letter for one of the Council's bank accounts
- subsequent events review
- management representation letter, as attached to be approved and signed

### TIMETABLE TO COMPLETE

The anticipated timetable to complete is as follows:

ACTIVITY	DATE
Audit committee meeting	25 September 2013
Signing of financial statements	27 September 2013
Completion of audit work on the WGA return and circulation of audit findings	27 September 2013
Signing of WGA audit certificate	By 4 October 2013

# INDEPENDENCE

## INDEPENDENCE

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. This document considers such matters in the context of our audit for the period ended 31 March 2013.

A summary of planned fees for audit and non-audit services for the period from 1 April 2012 to date is set out below. We will carry out a detailed comparison of actual audit costs incurred against planned costs when we have completed the audit and discuss any impact on the planned fee with management, before we report the final fee outturn

We confirm that we are not aware of any relationships that may bear on our independence and objectivity as auditors and that our independence declaration, included in the Audit Plan for 2012/13, has remained valid throughout the period of the audit.

	£
Code Audit fee	60,990
Grants Certification Fees	16,300
Fees for Non-Audit Services	-
<b>TOTAL PLANNED FEES</b>	<b>£77,290</b>

# AUDIT SCOPE AND OBJECTIVES

Our audit scope is determined by the Audit Commission's Code of Audit Practice for Local Government and covers an audit in accordance with International Standards on Auditing (UK and Ireland) of the statutory financial statements. We form an opinion on whether:

**1** The financial statements give a true and fair view of the state of the Council's affairs as at 31 March 2013 and of the income and expenditure for the year then ended

**2** The financial statements have been properly prepared 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 "Delivering Good Governance in Local Government" (CIPFA / SOLACE)

**6** The audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and for:

- securing financial resilience
- challenging how it secures economy, efficiency and effectiveness

**7** The Whole of Government Accounts return is consistent with the audited financial statements and that it is properly prepared

# FINANCIAL STATEMENTS - KEY AUDIT AND ACCOUNTING MATTERS

To provide an opinion on whether your financial statements give a true and fair view of your financial position and income and expenditure and whether they have been prepared properly, in accordance with accounting policies directed by the Secretary of State, we carry out risk based procedures designed to obtain sufficient appropriate audit evidence to determine with reasonable confidence whether the financial statements are free from material misstatement and evaluate the overall presentation.

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, Appendix III provides an indication of the quantitative levels used for planning purposes. Materiality is re-assessed every year in the context of authoritative audit practice

We are required to report to you all uncorrected misstatements that relate to the current financial year (including those arising in previous periods that have an effect on the current year financial statements) and the effect that they have individually, or in aggregate, on the opinion in the auditor's report, except for those that are clearly trivial. For reporting purposes, we consider misstatements of less than £30,000 to be trivial and have not reported them, unless the misstatement is indicative of fraud.

Recommendations in response to the key findings identified by our audit of the financial statements and use of resources work are provided in the action plan at Appendix A. These recommendations have been discussed with appropriate officers and their responses are included.

We would highlight that in this report we do not provide a comprehensive statement of all weaknesses that may exist in the financial and operational systems, but only those matters which have come to our attention as a result of the audit procedures performed. We only restate weaknesses already reported by Internal Audit where we consider these to be significant deficiencies. Recommendations in response to the key findings identified by our audit of the financial statements are provided in the action plan at Appendix V.

AUDIT RISK AREAS			
RISK	RELATED CONTROLS	WORK PERFORMED	CONCLUSION
Management override of controls	ISA (UK&I) 240 requires us to presume that a risk of management override of controls is present and significant in all entities. By its nature, there are no controls in place to mitigate the risk of management override.	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.	Our audit work has not identified any significant transactions that are outside the normal course of business for the Council or that otherwise appear to be unusual. Our work on accounting estimates has not identified any evidence of bias.

**AUDIT RISK AREAS**

RISK	RELATED CONTROLS	WORK PERFORMED	CONCLUSION
<p><b>Revenue recognition - Sundry income</b></p>	<p>Most revenue streams of the Council's can be verified and therefore do not present an audit risk. For income from sundry charges, assessments of amounts due are completed by departments, who then arrange, following review and authorisation, for appropriate invoices to be raised within the Agresso system. There is an automatic interface between the sales ledger in Agresso and the general ledger and monthly reconciliations of the interface are completed to ensure all income amounts are recorded in the general ledger.</p>	<p>We have documented the systems in place for the raising and recording of sundry revenue, and tested a sample of transactions to ensure they have been appropriately identified as occurring and have been recorded within the financial statements</p>	<p>We are satisfied that sundry revenue income appears to have been appropriately identified and recorded within the financial statements.</p>
<p><b>Municipal Mutual Insurance (MMI) provision</b></p>	<p>When our audit plan was finalised in March 2013, management had not estimated the potential liability arising from the historic insurance scheme. Management subsequently obtained an estimate of the liability from professional advisors and reviewed it for reasonableness.</p>	<p>We have reviewed the data supporting the provision amount and contingent liability disclosures included within the financial statements and consider these to be reasonable.</p>	<p>We are satisfied the Council has included appropriate amounts and disclosures in respect of the MMI historic insurance scheme within the financial statements.</p>

# FINANCIAL STATEMENTS - KEY AUDIT AND ACCOUNTING MATTERS

## Accounting Practices and Financial Reporting Framework

### Financial Statement Preparation process

The requirement for Members to approve the draft financial statements by 30 June was removed by the Accounts and Audit Regulations 2011. However these regulations introduced the requirement for the Responsible Financial Officer to sign and present the financial statements for audit by 30 June. The financial statements were signed and presented for audit on 27 June 2013.

As part of our planning for the audit, we prepared a detailed document request which outlined the information that we would require to complete the audit. The Council provided us with files of comprehensive working papers on 8 July 2013, in line with the agreed timetable.

### Audit issues and impact on opinion

*The Council's arrangements for preparing and publishing the draft financial statements remained effective. However, we did encounter some delays in progressing our work and in processing amendments made as a result of our audit work.*

### Accounting Policies

The following changes have been introduced by the 2012/13 Code of Practice on Local Authority Accounting in the United Kingdom (the 'Code'), resulting in changes in accounting practice:

- in relation to the objective of the financial statements and the qualitative characteristics of financial information as a result of the publication of the first phase of the International Accounting Standards Board's (IASB's) The Conceptual Framework for Financial Reporting 2010 (the Conceptual Framework)
- encouraging local authorities to prepare the Explanatory Foreword taking into consideration the requirements of the Government's Financial Reporting Manual (FReM)
- including amendments in relation to IFRS 7 Financial Instruments: Disclosures (transfers of financial assets).

### Audit issues and impact on opinion

*We have no matters to report.*

## Accounting estimates

We review material accounting estimates identified as having high estimation uncertainty or which are subject to a significant degree of judgement by management, and assess the reasonableness of the assumptions applied by management when deciding whether to recognise amounts in the accounts or the value at which these are recognised.

We consider the following to be material accounting estimates with high estimation uncertainty:

- valuation of fixed assets
- depreciation
- recoverability of debtor balances
- estimated pension liability.

## Audit issues and impact on opinion

*We set out below the significant material estimates we have considered as part of the audit:*

### **Valuation of fixed assets**

*Land and buildings are required to be carried at fair value which is either existing use value, depreciated replacement cost for specialised properties or open market value. The Council revalues land and buildings either in year, where material changes in value have occurred, or as a minimum every five years as part of a rolling programme. The Council does not adjust for price indices between formal valuations.*

*Valuation reports for land and buildings and useful economic lives are prepared by an independent valuer with specialist knowledge and having regard to local prices and the public sector. Management accepts the valuation information provided by the expert and valuation adjustments are made to the financial statements where required.*

*We are satisfied the valuer is suitably independent of the Council, objective and experienced in undertaking this work. Our review of the valuations provided, when compared to other price index information available, and useful economic lives allocated to buildings and significant components indicate these are reasonable.*

### **Depreciation**

*Those assets which are considered to have a finite life in use, such as items of plant and equipment and the structure of buildings, are required to be depreciated in value over the period of use. This charge, or depreciation, is intended to recognise the loss in value of the asset through its use in the delivery of the Council's services. The period over which the asset is depreciated is dependent on the assessed life of the asset, and the period of time at the end of which it will cease to have any further value to the Council. Changes in the useful lives of assets can have a significant effect on the level of depreciation incurred by individual services in any one year.*

*We have reviewed the methodology applied by the Council in assessing the economic life of its assets and the associated depreciation charges and we are satisfied it is reasonable.*

**Recoverability of debtor balances**

*The Council calculates the annual allowance for the impairment of debtors based on an assessment of recoverability. Management reviews all debts, and specific amounts considered irrecoverable are included in the impairment assessed at year end. Most categories of the Council's debtors are not subject to substantial fluctuation and management applies percentages to the aged profile of the debts, based on past experience of recoverability, to estimate the allowance for doubtful debts.*

*We have reviewed the methodology applied by the Council in estimating the allowance for doubtful debts and are satisfied it is reasonable.*

**Estimated pension liability**

*The net pension liability of the Council comprises its share of the market value of assets held in the East Sussex County Pension Fund 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 about inflation. Management has agreed the assumptions made by the actuary to support the estimate and these are included in the financial statements.*

*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 not significantly different from those being applied by the actuaries of other local authorities.*

## Disclosures

We review material accounting disclosures, to confirm compliance with the requirements of the Code.

## Audit issues and impact on opinion

*We have identified some amendments to ensure the requirements of the Code are fully followed. The amendments have been agreed with officers. The principal amendments made are:*

- *to the explanatory foreword to ensure that payroll disclosures were consistent with the underlying system records*
- *to note 13 to ensure agreement with the detailed disclosure of grant income at note 32 to the accounts*
- *to the disclosure of property, Plant and equipment (PPE) amounts within note 14 to ensure the details correctly reflect the transactions included in the detailed Fixed Asset Register*
- *to the details in note 18 in respect of the Council's Heritage Assets and changes in valuation arising in the year*
- *to note 19 to correct the analysis of the trade receivable balance between sundry debtors and prepayments.*
- *to note 36 to ensure the disclosure of Members allowances included only those amounts required by the Code*
- *to note 38 to ensure the consistent and complete disclosure of financial instruments*
- *to note 41 to ensure details in respect of exit packages agreed with the underlying records.*
- *to the analysis of senior management salaries into bandings (note 41) as required by the Code*

## Misstatements

We identified a small number of departures from the expected presentation of the financial statements, or where notes and other disclosures had not been presented in accordance with the Code and requested management correct these in order to achieve compliance.

## Audit issues and impact on opinion

*The following misstatements identified by the audit have been amended by management:*

- *the inclusion of disabled facilities grant as a revenue grant rather than as a capital grant received in year (notes 7 and 34)*
- *inclusion of additional information within note 24 (Provisions) and note 30 (Contingent Liabilities) to outline the current position of liabilities in respect of the Municipal Mutual Insurance liability.*

## Uncorrected misstatements

We are required to report to you uncorrected misstatements that relate to the current financial year (including those arising in previous periods that have an effect on the current year financial statements) and the effect that they have individually, or in aggregate, on the auditors' report, except for those that are clearly trivial. These are set out below and their potential impact is summarised at Appendix II

## Audit issues and impact on opinion

### ***Local Authority Mortgage Scheme (LAMS)***

*The Council has continued to provide support to local people through its Local Authority Mortgage Scheme (LAMS). Following the success of the scheme in 2011/12, when the Council guaranteed borrowing for first time buyers of local properties amounting to £1 million, an additional £1 million was made available in 2012/13. There are two issues in relation to the scheme we wish to draw to the attention of members:*

#### *Disclosure as a financial instrument*

*Within its financial statements the Council is required to disclose its various financial instruments and provide an assessment of its exposure to risk. The fair value of financial instruments is also disclosed.*

*Within the prior year (2011/12) financial statements, the Council has disclosed its deposit with a national bank guaranteeing LAMS transactions as a financial instrument (value £1 million). However, the increased amount (£2 million) has not been included as a financial instrument as at 31 March 2013. The Council is following updated advice provided by its financial advisers to exclude the amount from the financial instruments disclosure note in 2012/13. The disclosure is therefore inconsistent between accounting periods.*

*The Council has explained the situation and included the book value and its estimate of the fair value of the deposit in a footnote. We have included this matter as an unadjusted disclosure error at Appendix II*

#### *Outstanding audit work on LAMS*

*The Audit Commission has contacted auditors to be aware that guidance has been issued by financial advisers on the LAMS scheme. The guidance, which Hastings is following, suggests that support given through LAMS should be treated as capital expenditure. However, alternative legal advice has been produced suggesting the transactions are revenue in nature. The Commission is reviewing its understanding of the legal position in discussion with its own legal advisers. Further guidance to auditors on this matter is awaited. We are continuing to discuss this matter with officers.*

***Depreciation of fixed asset components***

*The Code requires local authorities to identify significant components of material property, plant and equipment assets. Once identified, each component with a cost that is significant in relation to the total cost of the asset should be allocated an appropriate useful life and depreciated in accordance with the Council's policies.*

*Previously the Council concluded that a number of properties fell within the Code's definition to be componentised and appropriate valuations were obtained. The Council reviewed the amount of depreciation involved and has chosen not to charge services based on its componentisation policy because the value is immaterial. As a consequence, we estimate the amount of depreciation charged to services for the Council's buildings in the 2012/13 financial year is overstated by £46,000. In 2011/12, we estimated the additional depreciation charge as £38,000. Depreciation on the Council's fixed assets is therefore overstated on the balance sheet as at 31 March 2013 by £84,000. The amount should be reversed through the Movement in Reserves Statement and there is no impact on the Council's useable reserves.*

*While the amount is immaterial to the Council's accounts and does not affect the overall resources available to Hastings, we have included the amount as an estimation error at Appendix II.*

# FINANCIAL STATEMENTS - KEY AUDIT AND ACCOUNTING MATTERS

## Matters required to be reported by other auditing standards

### Whole of Government Accounts

### Audit issues and impact on opinion

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 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.

*We have no matters to report.*

As a result of difficulties with the WGA documentation provided by the Department of Communities and Local Government, the Department extended the submission deadline to 14 August, but still require the audited return to be submitted by 4 October.

### Annual Governance Statement

### Audit issues and impact on opinion

We have reviewed the draft Annual Governance Statement and are 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.

*We have no matters to report.*

# CONTROL ENVIRONMENT

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 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.

## SIGNIFICANT DEFICIENCIES

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE
<b>PURCHASE ORDERS - SIGNIFICANT DEFICIENCY</b>	Testing of controls (by Internal Audit) in relation to the purchase order system identified instances where both the purchase orders (requisitions) and subsequent invoices for payment were being authorised by the same individual.	If orders are placed and authorised for payment by the same individual, the Council may incur unnecessary expenditure and the risk of fraud may increase.	The Council should ensure its stated procedures, to ensure all purchase orders are separately authorised for payment, are consistently followed.	Internal Audit is reviewing the situation and will report its findings to the Chief Finance officer. Appropriate action will then be taken to address any deficiency found

We made the observations reported to you above during the course of our normal audit work.

## USE OF RESOURCES - KEY AUDIT MATTERS

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).

In accordance with our Audit Plan, 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 organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

The focus of the criteria for 2012/13 is:

- the organisation 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 is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity
- undertaking other local risk-based work, as appropriate.

### Financial resilience

Our financial resilience risk assessment considered the Council's arrangements for financial governance, financial planning and financial control. Our detailed work also considered the Council's arrangements for managing financial risks and opportunities and securing future financial stability.

Our risk based planning identified the risk to achievement of financial targets and the efficiencies required for maintaining financial balance.

#### Key Findings

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 direct service expenditure on services amounting to £1.196 million less than the revised budget amount (in 2011/12 expenditure was £1.1 million less than planned).

### Audit issues and impact on opinion

*Significant resource gaps have been identified in the two year period to 2015/16 (£3.849 million) and further pressure is being placed on the Council's available general and earmarked reserves. Ensuring financial balance over the medium term planning horizon will continue to require strong action by the Council.*

The achievement of efficiency plans and the receipt of further transitional funding from the Government, has allowed the Council to increase the level of earmarked reserves by £978,000 to £15.822 million as at 31 March 2013. In addition, the General Fund balance was 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 Government's Comprehensive Spending Review and known financial settlements. While the financial position is balanced in the period to 31 March 2014, this includes the planned use of earmarked reserves (£1.663 million) and significant resource gaps have been identified over the 2014/15 to 2015/16 period (£3.849 million). The Cabinet continues to consider options and take action to address the resource gap, principally through the implementation of the financial planning and efficiency programme, and has identified savings of £7 million as achievable in the 2013/14 to 2015/16 financial period. However, continued pressure is being 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.

The Council's efficiency plans are due to be refreshed using the Council's Priorities, Income and Efficiencies Review (PIER) methodology. The delivery of the published efficiency programme and the Council's plans to invest available reserves in service improvement is being kept under close review by the Cabinet and the Senior Management Team.

Our risk assessment and review of economy, efficiency and effectiveness has considered the Council's arrangements for prioritising resources within tighter budgets and improving efficiency and productivity.

#### Key Findings

We have previously concluded the Council has 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 to allow 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.

The 'PIER' process has resulted in some significant changes to the provision of services across Hastings, including shared services with other District Councils (such as building control services), significant changes to the customer contact centre to provide a single point of contact for service users, the rationalisation of accommodation, and the development of 'smarter' working arrangements for staff. The savings previously achieved from PIER processes, and those anticipated annually, are reflected in financial plans including the medium term financial strategy.

The achievement of operational plans for service delivery and efficiency savings is monitored through the regular reports to the Council's Cabinet and Scrutiny Committees.

The Council is working with its partners and other Councils to ensure a more strategic approach to service delivery. A partnership with three other Councils in East Sussex has now secured the procurement of waste collection services across four Districts, with resources pooled to maximise the procurement savings available, these being delivered from July 2013. Procurement of a revised Grounds Maintenance contract with another Council has also resulted in significant savings.

In the year the Council has, following the success of the original scheme, extended its assistance to first time buyers entering the housing market in Hastings through its partnership with a national bank, with the provision of an additional £1 million to support the scheme in 2012/13 (bringing the total resource available to £2 million). Hastings has provided the additional resource to support guarantees for local people eligible for the scheme and who meet the lending criteria specified by the bank. The Council has supported about 30 people from the initial scheme and expects to provide support to a further 30 local people using the additional funds. The Council considers the project to have been successful and none of the mortgagees have been identified as being at risk of default.

*We have no matters to report.*

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 reported positive performance in many areas in 2012/13 with the majority of key targets being delivered and performance measures met or exceeded. Areas where the Council is working to improve performance include:

- achieving targets for the waste and recycling service, recognising a new contractor was appointed in July 2013
- improving the availability of housing and associated key services within the Ore valley area
- working with partners on the economic regeneration of aspects of Hastings Town, such as Hastings Castle and White Rock baths.

#### BDO CONCLUSION

Our value for money conclusion is based on considering our overall risk assessment, focusing on the two criteria set by the Audit Commission, and the results of risk based audit work, as well as consideration of the processes underpinning your review of the effectiveness of your controls as described in your Annual Governance Statement.

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 ending 31 March 2013. We propose issuing an unqualified value for money conclusion.



# APPENDICES

## APPENDIX I: DEFINITIONS

TERM	MEANING
<b>The Council</b>	Hastings Borough Council
<b>Management</b>	The person(s) responsible for achieving the objectives of the entity and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for the financial statements, including designing, implementing, and maintaining effective internal control over financial reporting.
<b>‘Those charged with governance’</b>	The person(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. At Hastings Borough Council this is the Audit Committee
<b>ISAs (UK &amp; Ireland)</b>	International Standards on Auditing (UK & Ireland)
<b>IAS</b>	International Accounting Standards
<b>IFRS</b>	International Financial Reporting Standards as adopted by the European Union
<b>Materiality</b>	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.
<b>Code</b>	Code of Practice on Local Authority Accounting in the United Kingdom 2012/13
<b>CIES</b>	Comprehensive Income and Expenditure Statement
<b>SeRCoP</b>	Service Reporting Code of Practice for Local Authorities 2012/13
<b>WGA</b>	Whole of Government Accounts
<b>Fair Value</b>	The Code provides guidance on assessing the fair value of assets and liabilities which (in general terms) means the fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s-length transaction.

## APPENDIX II: UNADJUSTED AUDIT DIFFERENCES

We are required to bring to your attention unadjusted audit differences that the Audit, Best Value and Community Services Scrutiny Committee and the Governance Committee are required to consider. A schedule of such adjustments is included below and we request that you correct them. Deliberate misstatement of known issues is not acceptable and identified misstatements should, where practicable, be corrected even if not material.

			CURRENT YEAR		PRIOR YEAR		NET ASSETS OR RESERVES (OVER) / UNDER
	(SURPLUS) / DEFICIT CIES	(SURPLUS) / DEFICIT G Fund	INCOME OVER / (UNDER)	EXPENSES (OVER) / UNDER	INCOME OVER / (UNDER)	EXPENSES (OVER) / UNDER	
UNADJUSTED AUDIT DIFFERENCES	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Deficit / Net Assets for the year before adjustment	2,661						70,559
<b>Impact of prior year misstatements</b>							
Estimated depreciation in respect of non componentised material assets						38	(38)
<b>Current year misstatements</b>							
Estimated depreciation in respect of non componentised material assets	46						(46)
Deficit for the year and Net Assets if adjustments made	2,707						70,475

### UNADJUSTED DISCLOSURE MATTERS

#### Financial Instruments Note 38

The Council has excluded investments over one year amounting to £2 million (book value) from the financial instruments note. The book value and fair value are provided in a footnote.

## APPENDIX III: MATERIALITY

MATERIALITY	
Planning materiality	£1,000,000
Final materiality	£1,000,000
Clearly trivial threshold	£30,000

Planning materiality of £1,000,000 for the Council was based on 1% of gross expenditure on the basis that it is a public sector entity that does not trade commercially. The final materiality figure was based on the full year outturn per the draft financial statements.

## APPENDIX IV: INDEPENDENCE

INDEPENDENCE - ENGAGEMENT TEAM ROTATION		
SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDED
Robert Grant - Audit engagement partner	6	31 March 2014
Stuart Frith - Audit manager	4	31 March 2020

### INDEPENDENCE - THREATS TO INDEPENDENCE AND APPROPRIATE SAFEGUARDS

We have not identified any potential threats to our independence as auditors of the financial statements.

We confirm that the firm complies with the APB 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 partner 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 V: ACTION PLAN

FINANCIAL STATEMENT RECOMMENDATIONS					
CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
INTERNAL CONTROL RECOMMENDATIONS					
CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
Testing of controls in relation to the purchase system identified instances where both the purchase orders (requisitions) and subsequent invoices for payment were being authorised by the same individual. As a result the Council may incur unnecessary expenditure and the risk of fraud may increase.	The Council should ensure its stated procedures, to ensure all purchase orders are separately authorised for payment, are consistently followed.	Medium	Internal Audit is reviewing the situation and will report its findings to the Chief Finance officer. Appropriate action will then be taken to address any deficiency found.	Head of Audit	October 2013
USE OF RESOURCES RECOMMENDATIONS					
CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
Significant resource gaps have been identified over the 2014/15 to 2018/19 period (£2.9 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.	The Council needs to ensure it continues to manage its financial position, ensuring balance in the medium term.	High	Comments noted.	Chief Finance Officer	On-going

## APPENDIX VI: FEES SCHEDULE

The Audit Commission's *Standing Guidance for Auditors* requires us to report the outturn fee position for the year against the budgeted fee included within our Audit Plan.

We will carry out a detailed comparison of actual audit costs incurred against planned costs when we have completed the audit and discuss any impact on the planned fee with management, before we report the final fee outturn.

## APPENDIX VII: STATUTORY AND PROFESSIONALLY REQUIRED COMMUNICATIONS

COMMUNICATION REQUIRED	DATE COMMUNICATED	TO WHOM	METHOD
	25 September 2013	Management and those charged with governance	Report to Audit Committee
Potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements.	Not an issue	Not an issue	Not an issue
Misstatements, whether or not recorded by the entity.	✓	✓	✓
The final draft of the representation letter.	✓	✓	✓
Material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern.	Not an issue	Not an issue	Not an issue
Disagreements with management about matters that, individually or in aggregate, could be significant to the entity's financial statements or our audit report.	Not an issue	Not an issue	Not an issue
Expected modifications to our audit report or inclusions of emphasis of matter / other matter.	Not an issue	Not an issue	Not an issue
Significant deficiencies in internal control paragraph.	✓	✓	✓
Any other matters warranting attention by those charged with governance, such as questions regarding management integrity, and fraud involving management.	Not an issue	Not an issue	Not an issue
Going concern issues.	Not an issue	Not an issue	Not an issue
Management judgements and accounting estimates.	✓	✓	✓
Other information in documents containing audited financial information.	✓	✓	✓
Consultation with other accountants.	Not an issue	Not an issue	Not an issue
Major issues discussed with management.	Not an issue	Not an issue	Not an issue

# APPENDIX VIII: REPRESENTATION LETTER

BDO LLP  
55 Baker Street  
London  
W1E 7EU

25 September 2013

Dear Sirs

## Financial statements of Hastings Borough Council for the period ended 31 March 2013

This representation letter is provided in connection with your audit of the financial statements of Hastings Borough Council for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view, have been properly prepared in accordance with the relevant financial reporting framework and have been prepared in accordance with the requirements of applicable law.

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

### FINANCIAL STATEMENTS

#### Responsibility for financial statements

I acknowledge as the Chief Finance Officer and s151 Officer my responsibilities for the Statement of Accounts, which include the financial statements, and for ensuring that these are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom and have been prepared in accordance with the requirements of applicable law.

#### Significant assumptions

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

#### Pension fund assumptions

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

- Rate of inflation 2.8%
- Rate of increase in salaries 5.1%
- Rate of increase in pensions 2.8%

- Rate for discounting scheme liabilities 4.5%
- Take up option to convert the annual pension into retirement grant 50%

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

#### Pension fund investments fair values

Where required, the value at which assets and liabilities are recorded in the pension fund net assets statement is, in my opinion, the market value. I am responsible for the reasonableness of any significant assumptions underlying the valuation. Unquoted, private equity and infrastructure investments held by fund managers within funds are valued at fair value by the fund managers. Where there is no active market where prices can be readily observed for these funds, I am satisfied that appropriate assumptions have been applied by the fund managers when valuing the share of the fund held by the pension fund.

#### Carrying value of land and buildings

I am satisfied that the carrying value of land and buildings is materially consistent with the fair value at 31 March 2013, and that no adjustment is required to those assets that were revalued as part of the five-year rolling programme in previous years.

#### Componentisation

I confirm that, in respect of the PPE assets reviewed for possible componentisation within the Fixed Asset Register, I have reviewed the impact on the depreciation charge arising from the application of differing useful economic life to the separate components and am satisfied that it is not materially different from applying a single useful economic life to the entire asset value

#### Fair value measurements and disclosures

I 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 to the Public Works Loans Board (PWLb) are reasonable and in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

#### **Accounting policies**

I confirm that the selection and application of the accounting policies used in the preparation of the financial statements are appropriate.

#### **Plans or intentions**

I confirm that the Council has no plans or intentions that may materially alter the carrying value and, where relevant, the fair value measurements or classification of assets and liabilities reflected in the financial statements.

#### **Litigation and claims**

I have disclosed to you all known actual or possible litigation and claims, the effects of which should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the applicable financial reporting framework.

### **Related parties**

I confirm that related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the applicable financial reporting framework.

### **Subsequent events**

All events occurring subsequent to the date of the financial statements for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.

### **Uncorrected misstatements**

You have brought to my attention potential misstatements in the financial statements as listed in the appendix to this letter. I do not wish to amend the financial statements to reflect any of these items as I believe that they are immaterial both individually and in aggregate to the view given by the financial statements as a whole. A list of these items is attached as an appendix to this letter.

### **Going concern**

I confirm that we are satisfied that it is appropriate for the financial statements to have been drawn up on the going concern basis. In reaching this conclusion I have taken into account all relevant matters of which I am aware and have considered a future period of at least one year from the date on which the financial statements will be approved.

## **INFORMATION PROVIDED**

### **Completeness of information**

All the accounting records have been made available to you for the purpose of your audit. I have provided you with all other information requested and given unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence. All other records and related information, including minutes of all management and Committee meetings held during the year and up to the date of this letter have been made available to you.

All transactions undertaken by the Council have been recorded in the accounting records and are reflected in the financial statements.

There is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware.

### **Internal Control**

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

I have communicated to you all significant deficiencies in internal control of which I am aware.

### **Fraud**

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

I have disclosed to you my knowledge of fraud or suspected fraud affecting the Council involving management, employees who have significant roles in internal control or others where the fraud could have a material effect on the financial statements

I have disclosed to you my knowledge of any allegations of fraud, or suspected fraud affecting the financial statements communicated to me by employees, former employees, analysts, regulators or others.

#### **Compliance with laws and regulations**

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

The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

#### **Related parties**

I confirm that I have disclosed to you the identity of the Council's related parties, related party relationships and transactions of which I am aware.

#### **Liabilities, contingent liabilities or guarantees**

There are no liabilities, contingencies or guarantees to third parties other than those disclosed in the financial statements.

#### **Title to assets**

The Council has satisfactory title to all assets and there are no liens or encumbrances on the assets except for those disclosed in the financial statements.

#### **Contractual agreements**

The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

#### **Other issue**

We discussed the Council's accounting treatment of transactions under the Local Authority Mortgages Scheme. We have continued to consider the advice provided by our financial advisers in this area and I believe the transactions are disclosed appropriately. The disclosures are mostly consistent with the prior year except for the removal of the deposit amount from the main part of the financial instruments note. I have however provided information about the book value and my estimate of the fair value of the deposit amount as at 31 March 2013 in the financial statements.

Yours faithfully

**Peter Grace**  
Chief Finance Officer

## **Representations of the Council**

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

## **Responsibility for the financial statements**

We acknowledge our responsibilities to make arrangements for the proper administration of the Council's financial affairs and to approve the Statement of Accounts, which include the financial statements. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which include the financial statements, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

## **Uncorrected misstatements**

We have considered the uncorrected misstatements in the financial statements as listed in Appendix 1 to this letter together with the explanations provided by the Director of Finance / Chief Finance Officer for not correcting these misstatements, and we consider them to be immaterial to the view given by the financial statements.

## **Annual Governance Statement**

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

Yours faithfully

**Councillor Cooke**  
**Audit Committee Chairman**

For and on behalf of the Audit Committee, Hastings Borough Council



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

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