

Agenda Item No:

Report to:	Audit Committee
Date of Meeting:	30 June 2008
Report Title:	Review of Lost Income
Report By:	Roy Mawford Chief Executive

Purpose of Report

To inform the Committee of the latest position in respect of lost car parking monies and to present an independent external report by PKF (UK) LLP.

Recommendation(s)

1. To note the report of the external auditor and note that officers have agreed the recommendations in the Action Plan.

Reasons for Recommendations

To respond to the external auditor's report.

Background

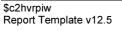
- 1. The Deputy Chief Executive reported to Cabinet on 7 June 2007 that £243,824 of car parking monies, which had been collected by the Council's cash collection contractor, had not been credited to the Council's bank account. The Cabinet resolved "that the Council commits itself to using all the powers available to seek full payment of the missing monies. It also believes that an independent external review into the Council's dealings with Estate Security South Ltd (ESSL) is required to determine that the internal control mechanisms are adequate and were utilised appropriately in this case. It instructs the Chief Executive to arrange such a review, the timing of which and the choice of external agent to be decided in consultation with group leaders."
- 2. On 5 June 2007 the Council had applied successfully to the High Court for the appointment of the Official Receiver as provisional liquidator of Estate Security South Ltd (ESSL). A specific term of the order is that the Official Receiver

"investigate the affairs of the company, including what happened to the monies belonging to Hastings Borough Council entrusted to the care of the company."

- 3. The loss of the monies was also reported to Sussex Police. They subsequently transferred the case to Kent Police on the basis that ESSL were located there.
- 4. On 12 November 2007 Mr S J Hunt of Griffins was appointed liquidator of the company by the Secretary of State, in place of the Official Receiver. The role of a liquidator is to realise the assets of the company and any other potential recoveries, for the benefit of creditors. The Official Receiver retains the duty to establish and investigate the cause(s) of failure and report any misconduct and/or criminal offences.
- 5. The final assessment of Council losses is £234,739. It is understood that in addition to the Council's losses, other local authorities, public bodies and commercial organisations lost a further sum in excess of £1million.
- 6. I am informed that Kent Police, whilst they have received complaints about the company, are not currently progressing matters and will await further information from the Official Receiver.
- 7. I had hoped that the Official Receiver's investigation, and possibly a Police investigation, would have occurred in order to inform the independent external review instructed by Cabinet. However, due to their slower than anticipated progress I decided it would not be appropriate to delay the review further. I therefore consulted with the three group leaders and appointed our external auditor to undertake the review.
- 8. The PKF report is attached.

Comments on PKF (UK) LLP Report

- 9. The external auditor has made a number of recommendations, which are contained in the attached Action Plan, all of which are fully accepted. These recommendations will help improve process, assist contract monitoring and supervision, and reduce risk.
- 10. Measures are already being taken to implement the recommendations. Specifically:
 - a. A comprehensive register of all contracts is being put in place, and will be regularly reviewed.
 - b. A systematic review of the effectiveness of arrangements for actively managing contracts will begin as soon as the above register has been compiled.
 - c. A review of risk management arrangements is being started.
- 11. It is unfortunate, though, more than 12 months after the liquidation of the company, that the external auditor is unable to come to a view on what exactly happened to the Council's money. It is undeniable that the money was collected from the Council's parking machines and that it did not reach the Council's bank account.





Therefore, some person, persons or organisation not entitled to the money must have taken it. The money was lost in exceptional circumstances, and it is not possible to say with any degree of certainty whether or not the measures proposed in the Action Plan would have prevented or reduced a loss, had they been in place at the time.

12. It is extremely regrettable that such a large sum of money has been lost and that it would now appear that only a small part of it will be recovered via the liquidator. However, if the auditor cannot form a view on where the Council's money has gone, with the benefit of hindsight, it indicates what a difficult position officers were in during 2007, whilst attempting to deal with the situation.

Policy Implications

13. The financial and risk management implications of this matter are described above. The organisational consequences of actions arising relate to strengthening contract and risk management arrangements.

Wards Affected

All

Area(s) Affected

All

Policy Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	Yes

Supporting Documents

Report of PKF (UK) LLP attached

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