



Accountants &  
business advisers

**Hastings Borough Council**

**Annual Governance Report**

**2009/10**

September 2010

DRAFT

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### **Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

# 1 Executive summary

- 1.1 Auditing standards require that we report to “those charged with governance” the key findings of our audit prior to issuing our opinion on the financial statements.

## Findings and conclusions

- 1.2 A summary of the audit findings and conclusions is included in the table below:

Area of audit	Findings & Conclusion
<b>Financial statements</b>	
<b>Key financial systems</b>	<p><b>The key financial systems are generally adequate as a basis for preparing the financial statements.</b></p> <p>In planning the scope of our audit work, we aimed to use the work of Internal Audit to test the effectiveness of controls operating over key financial systems. Although we were able to use much of the work of internal audit we also undertook some additional work as necessary. We are currently discussing with officers how to ensure in future years we can use as much of the work of Internal Audit as possible.</p>
<b>Financial statements</b>	<p>No material errors were identified as a result of our audit work. However, we found some non-trivial (but not material) errors. A number of these have been adjusted within the financial statements, and those that have not been adjusted are detailed in Appendix C. We have noted the following matters:</p> <ul style="list-style-type: none"> <li>• our review of leases indicated the accounts should be amended to include a finance lease for a building leased from a Church organisation. Fixed Asset balances and Long Term Liabilities were increased by £255,000 accordingly</li> <li>• the Council has previously applied depreciation to its investment properties, and the revaluation of assets in 2009/10 has resulted in the elimination of £1.1 million of accumulated depreciation on these properties. However, some investment properties retain accumulated depreciation amounts (£133,000) including £10,000 charged in the year. We recommend the accounts are amended to ensure that only those properties that suffer loss in value are subject to a depreciation charge.</li> </ul> <p>We are satisfied the Annual Governance Statement (AGS) is not inconsistent or misleading with other information we are aware of from our audit of the financial statements.</p> <p><b>Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified “true and fair” opinion.</b></p>
<b>Value For Money conclusion</b>	<p>We will issue an <b>unqualified value for money conclusion.</b></p>

## Acknowledgement

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

## 2 Introduction

- 2.1 This report summarises the results of our audit work completed to date in respect of the financial statements and arrangements to secure economy, efficiency and effectiveness in the use of resources for the year ending 31 March 2010.
- 2.2 Our report is presented to the Members in accordance with the provisions of International Auditing Standard 260 ("ISA 260"), which requires us to report key findings from the audit to "those charged with governance", prior to issuing our opinion on the financial statements.

### Findings

- 2.3 Recommendations in response to the key findings identified by our audit of the financial statements are provided in the action plan at Appendix A. These recommendations have been discussed with appropriate officers and responses are included in the action plan where appropriate.
- 2.4 We would highlight that in this report we do not provide a comprehensive statement of all weaknesses that may exist in the accounting and control systems, but only those matters which have come to our attention as a result of the audit procedures performed. We have not restated weaknesses already reported by Internal Audit unless these are significant weaknesses.

### Fee outturn

- 2.5 The Audit Commission's *Standing Guidance for Auditors* requires us to report the outturn fee for the year against the budgeted fee included in your Audit Plan. The table below sets out this analysis:

Audit plan 2009/10	Planned fees £	Actual fees £
Financial statements	61,400	61,400
Use of Resources	39,500	39,500
<b>Subtotal audit</b>	<b>100,900</b>	<b>100,900</b>
Grants	45,000	45,000
<b>Total</b>	<b>145,900</b>	<b>145,900</b>

- 2.6 We undertook some additional audit work on the Council's financial systems to test the effectiveness of controls operating in key financial systems. We will continue to work with internal audit to maximise the overall level of audit coverage.
- 2.7 A number of the grant claim audits are currently in progress or do not require certification until after 30 September 2010 and therefore the actual fee remains an estimate. The final position will be reported in our grants report to be issued in February 2011.

### Independence

- 2.8 We confirm 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 2009/10, has remained valid throughout the period of the audit.

## 3 Financial statements

### Requirements

- 3.1 We are required 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 appropriate legislation and relevant accounting guidance.
- 3.2 We carry out 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 order to ascertain whether they have been prepared in accordance with relevant legislation and accounting standards.
- 3.3 We identify the principal areas of risk of material misstatement from our knowledge of the Council, of the environment in which it operates and from discussions with management. We address these risks by carrying out appropriate audit procedures.
- 3.4 We apply an appropriate level of materiality and as such the audit cannot be relied upon to identify all risks or potential and actual misstatements. Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole.
- 3.5 We set a triviality level of £50,000 for the 2009/10 financial statements audit and have not reported to you any matters arising below this level.

### Reporting to those charged with governance

- 3.6 We are required to report to you:
- our assessment of and response to **significant risks in the financial statements**
  - qualitative aspects of **accounting practices and financial reporting**
  - **corrected and uncorrected misstatements**
  - final draft **letter of representation** to be agreed by management and those charged with governance
  - expected modifications to the **audit report**
  - material weaknesses in **accounting and internal control systems** identified during our work
  - **matters required to be reported by other auditing standards**
  - any **other audit matters of governance interest**.
- 3.7 Our comments in these areas are set out in order below.

### *Significant risks in the financial statements*

- 3.8 Auditing standards require we bring to your attention areas that require additional or special audit procedures in response to significant risk, such as a weakness in controls or areas requiring a higher degree of estimation by management.
- 3.9 We reported to you our updated risk assessment in the 2009/10 Audit Plan issued in December 2009. The findings from our review of financial statements risks in our Audit Plan and in planning the audit of financial statements are summarised in the table overleaf:

Risk area	Overall conclusion
<b>Significant audit risks reported in the audit plan</b>	
<p><b>2009 SORP</b></p> <p>We identified a risk of the Council not implementing the proposed changes contained within CIPFA's Statement of Recommended Practice 2009, and therefore producing accounts which did not materially comply with professional guidance</p>	<p>The Council implemented the changes required by the 2009 SORP, including the amendment of prior year balances.</p>
<b>Significant audit risks identified in the year</b>	
<p><b>Management override of controls</b></p> <p>Auditing standards presume that a risk of management override of controls is present in all entities.</p>	<p>We tested the appropriateness of accounting journals and other adjustments to the financial statements, reviewed accounting estimates for possible bias and obtained an understanding of the business rationale for significant transactions appearing to be unusual. We have highlighted issues arising from our work in this governance report.</p>

## ***Accounting practices and financial reporting***

### **Application of accounting policies**

- 3.10 The key changes introduced by the 2009 SORP were:
- the introduction of service concession arrangements under International Financial Reporting Interpretations Committee (IFRIC) 12
  - the introduction of agency accounting for the collection of council tax and national non-domestic rates (NNDR).
- 3.11 The Council dealt with the implementation of these changes effectively.

### **The accounts preparation process**

- 3.12 The draft financial statements were approved by Members on 28 June 2010 which was in line with the statutory deadline of 30 June 2010. 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 working papers and draft financial statements as planned on 12 July 2010.

### **Adequacy of disclosures**

- 3.13 We identified some departures from the expected presentation of the financial statements and where notes and other disclosures required amendment following completion of our work. The following amendments have been made by the Council:
- Statement of Accounting Policies (Intangible Assets): revision to the accounting policy for intangible assets to reflect the continued benefit being derived from such assets which have been fully amortised
  - Statement of Accounting Policies: the inclusion of an additional accounting policy in respect of provisions for bad debts
  - Employee Remuneration (Note 8): revision of disclosures in respect of staff salary bandings to adjust for errors in the compilation of the note

- Related Party Transactions (Note 9): the related party transactions disclosure note has been expanded to include additional disclosure in respect of relationships with East Sussex County Council
- Contingent Liabilities (Note 41) was amended to include information about a national issue following a recent decision by the Information Commissioner's Office that local authorities should not charge for property searches (known as 'land charges') made by personal callers. The decision was not published until August 2010 and officers could not have anticipated it in preparing the draft accounts
- Events after the Balance Sheet date (Note 49): a post balance sheet event regarding the change in the interest rate used to calculate future pension liabilities based on the Consumer Price Index (rather than the Retail Price Index) has been provided. Officers could not have anticipated this issue in preparing the draft accounts
- Capital Commitments: the inclusion of additional information on the value of future capital commitments of the Council.

## ***Corrected and uncorrected misstatements***

### **Testing of transactions and balances**

- 3.14 As part of our audit approach, all material balances were subject to audit testing and agreement, on a sample basis, to supporting documentation. The following matters arose, which we bring to your attention:

#### **Corrected misstatements**

##### **Statement of Recognised Gains and Losses (STRGL) – Reallocation of amounts (£556,000)**

- 3.15 The Statement of Recognised Gains and Losses was amended to reclassify the following gains on fixed assets:

- (Surplus) on revaluation of fixed assets reduced from (£15,592,000) to (£15,036,000)
- Other Gains and losses increase from £10,000 to (£546,000).

- 3.16 The position arose because the Council misclassified certain fixed asset revaluation gains in preparing the STRGL. There is no effect on the overall financial position of the Council.

##### **Renaissance house – Change in accounting treatment of lease Annual finance lease payment £8,750 Net Present Value of finance lease £255,000**

- 3.17 In August 2006 the Council entered into a long term lease (125 years) for a property previously known as Christ Church St Leonards Old School Buildings (now known as Renaissance House). The lease terms involve a rent free period in year one followed by an annual rental payment of £8,750. The rent is due to be reviewed every 10 years in accordance with the contract terms. The next rent review is due in August 2017. In 2009/10 the Council incurred capital expenditure of £1.2 million to enhance and refurbish the building and is depreciating the assets involved in accordance with its policies.

- 3.18 The Council regarded the arrangement as an operating lease and included the annual rental payment as a cost of service. We reviewed the terms and conditions of the lease and concluded the lease should be regarded as a finance lease because the risks and rewards of ownership of the building transfer to the Council, and because the lease is for an extended period of 125 years. Officers also reviewed the lease and agreed with our assessment.

- 3.19 Officers calculated the net present value of the lease and the following amendments have been made to the balance sheet:

- Other Land and Buildings increased by £255,000

- Long Term Liabilities increased by £255,000.

3.20 As a result of these amendments the Council's Total Assets less Current Liabilities increased by £255,000. There is no effect on the net worth of the Council as at 31 March 2010. The effect of the transactions on the Income and Expenditure Account has been calculated by the Council and is trivial. The Council plans to include these transactions when producing the 2010/11 accounts. The interest payable on the finance lease will be removed from the cost of services and included in net operating expenditure.

**Revaluation Reserve (note 35) – balance reduced £217,000**  
**Capital Adjustment Account (note 36) – balance increased £217,000**

3.21 Officers drew our attention to an adjustment required to the revaluation reserve and the capital adjustment account. The position arose because depreciation on assets sold in the year amounting to £217,000 should have been removed from the Revaluation Reserve and transferred to the Capital Adjustment Account. The following amendments were made to the accounts:

- Balance on revaluation reserve reduced from £19,587,000 to £19,369,000
- Balance on Capital Adjustment account increased from £43,018,000 to £43,235,000.

**Debtors (note 24)**

3.22 Our work identified spreadsheet formulae errors that resulted in the incorrect disclosure of sundry debtors in note 24 to the accounts. None of the errors affect the overall debtor position reported on the balance sheet and officers made the following amendments:

- Sundry debtor balance increased by £720,000 (net effect of following adjustments after rounding)
  - Housing benefit overpayments reduced by £369,000
  - Government department debtors reduced by £540,000
  - Other local authorities debtors increased by (£191,000).

3.23 We also found an error in the classification of other local authority debtors amounting to £714,000 which had been incorrectly included in Non-domestic rates debtor. The following adjustments were made by officers:

- Other local authority debtors increased by £714,000
- Non-domestic rate debtors reduced by £714,000

**Borrowing repayable (note 26) – misallocation of short term borrowing £2.5 million**

3.24 Our work identified the Council incorrectly included a short term loan from the PWLB amounting to £2.5 million in the long term borrowing repayable amount. The error means the net current assets balance was understated by £2.5 million. The total assets less liabilities balance was not affected. The following amendments were made to the accounts:

- Borrowing repayable on demand within one year increased from £2,069,000 to £4,569,000
- Long term borrowing repayable in excess of one year decreased from £12,000,000 to £9,500,000

3.25 In addition to the disclosure amendments highlighted at paragraph 3.13, officers made the following amendments to the accounts. None of the adjustments affected the surplus reported for the year or the net worth of the Council:

- Short Term Deposits (Note 39): amendment of the fair value disclosure for short term deposits to ensure the correct amount is disclosed (increase of £164,000)



- Balance Sheet Cash in Hand and in Bank and Bank Overdraft: Cash and Bank balance increased by £26,000 and bank overdraft increased by £26,000 to ensure correct disclosure of overdrawn balances which should not be offset between bank accounts.

### **Capital projects funded from Revenue – expenditure of £81,000**

3.26 As part of the funding of the Council's capital programme; three projects for Street Lighting, Pelham Crescent works and Priory Meadow works, were paid for from revenue resources. While the revenue aspects of the transactions were correctly disclosed, the Council had not fully accounted for the capital aspects. The following amendments were made to the accounts:

- Capital Adjustment Account increased from £43,235,000 to £43,316,000
- Capital Reserves (part of the general reserves balance) decreased from £3,260,000 to £3,179,000

### **Uncorrected misstatements**

#### **Fixed Assets - Investment properties (Note 17)**

3.27 The Council has previously applied depreciation to its investment properties, resulting in a considerable brought forward accumulated depreciation balance. The Council continues to charge depreciation where it considers this to be appropriate. However, this approach does not fully comply with the 2009 SORP, which does not expect investment properties to be depreciated.

3.28 Following the revaluation of fixed assets in the year, the majority of the brought forward accumulated depreciation on investment property assets (£1.1 million) has been removed from the accounts. However, accumulated depreciation amounting to £133,000, including depreciation of £10,000 charged in year, remains in the accounts for some investment properties. While the amounts involved are not material, we recommend the accounts are amended to remove the accumulated depreciation and ensure full compliance with the 2009 SORP.

### ***Letter of representation***

3.29 The draft letter of representation has been attached as Appendix C. We do not anticipate any changes being required before providing our opinion on the financial statements.

### ***Audit report***

3.30 Subject to final clearance of points arising from the review of audit work, we anticipate issuing an unqualified audit opinion on the accounts. We will provide a verbal update to the Audit Committee.

### ***Accounting and internal control systems***

3.31 We have reviewed the key financial systems, which contribute to the preparation of materially accurate financial statements, to assess the extent to which we can place reliance on them for this purpose. In carrying out this work we consider:

- the extent to which your accounting and internal control systems are a reliable basis from which to prepare the financial statements
- the robustness of your accounts preparation processes.

3.32 In assessing the reliability of systems as a basis for providing financial information that is free from material misstatement, we prepared systems notes for each financial system and we evaluated the controls within those systems, with particular focus on assessing whether the controls in place to mitigate significant risks are suitably designed and operating as intended to meet their objective.

3.33 Your key financial systems are:

- Main accounting
- Cash and bank
- Payments and creditors
- Income and debtors
- Payroll and employment costs
- Council tax
- Housing and council tax benefits
- National Non Domestic Rates
- Investments and investment income
- Information technology

3.34 We also have a responsibility to give specific consideration to the potential risk of material misstatement of your financial statements due to fraud and error, including the risk of fraudulent financial reporting. This requires us to:

- review internal controls that are designed to prevent, or detect and correct, misstatements in the accounts
- review the arrangements for preparing the financial statements
- select and test transactions and balances, including review of significant balances against expectations and substantiate individual items
- assess the significant estimates and judgements made by officers in preparing the accounts
- consider the adequacy of presentation and disclosures included in the financial statements.

3.35 The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect material fraud and corrupt practices lies with management and those charged with governance.

### **Internal audit**

3.36 Where possible, we have placed reliance on Internal Audit's work and thereby avoided unnecessary duplication of audit effort. To ensure this approach was valid, we have undertaken the following:

- reviewed Internal Audit's working papers and reports
- considered the robustness of the key financial systems on the evidence of this work
- re-performed Internal Audit's evaluation of controls and a sample of its testing of the effectiveness of controls, to ensure that its conclusions are soundly based.

3.37 We undertook some additional audit work on the Council's financial systems to test the effectiveness of controls operating in key financial systems. We will continue to work with internal audit to maximise the overall level of audit coverage.

### **Fraud risks**

3.38 In order to identify fraud risks, and the controls the Council has put in place to mitigate those risks, we have:

- discussed the Council's anti fraud and corruption arrangements with officers, and those charged with governance
- considered the extent to which the work of Internal Audit is designed to detect material misstatements in the accounts arising through fraud
- made enquiries regarding instances of actual fraud brought to our attention.

### **Conclusions**

3.39 As a result of our work, we have concluded the key financial systems are adequate as a basis for preparing the financial statements. While we identified some weaknesses in the

application of controls over write-offs and refund of debtor amounts, we do not consider these may have materially affected the financial statements. We have included in Appendix A, recommendations arising from our work.

- 3.40 We did not identify any significant fraud risks that affected our audit programme for the financial statements.

### ***Matters required to be reported by other auditing standards***

- 3.41 There are no other matters arising from our work that we are required by other auditing standards to bring to the attention of those charged with governance.

### **Other audit matters of governance interest**

#### **Pebsham Tip – fixed asset value £1.1 million**

- 3.42 Pebsham tip is a landfill site the Council owns which is currently leased (by the Council) to a private waste services company. In previous years, the Council has included the asset on its balance sheet based on the value of future rental streams expected. The fixed asset value being written down each year by the amount of rent received. As at 31 March 2009, the asset had a nil valuation. The Council agreed a new rental agreement with the waste company in 2009/10 and has extended the useful life of the asset to 31 December 2013 and increased its value to £1.133 million accordingly. The asset is being reduced in value (impaired) over the life of the rental agreement.
- 3.43 The accounting treatment is in line with the policies previously followed by the Council for the Pebsham site, and the expected nil value for the asset at the end of the rental period reflects its value because the site will be returned to parkland. We agreed with officers the accounting policy in respect of fixed assets should be updated to reflect the use of this valuation methodology.

### **Annual Governance Statement**

- 3.44 The Council has a responsibility to publish a Governance Statement, including the outcome of a review of its effectiveness, with its 2009/10 financial statements.
- 3.45 We have reviewed the Annual Governance Statement and the supporting review of effectiveness that has been undertaken and we are satisfied the Statement is not inconsistent with the evidence provided in the review of effectiveness and our knowledge of the Council.

### **International Financial Reporting Standards**

- 3.46 International Financial Reporting Standards (IFRSs) will be adopted in local government from 2010/11 and will require transitional arrangements to be put in place by the Council. Management should prepare for the adoption of IFRSs based on the Treasury timescales and ensure that staff have sufficient knowledge of IFRSs to restate the current financial statements.
- 3.47 We have discussed the Council's current arrangements for managing the transition to IFRS and restating the 2009/10 financial statements. We are satisfied the Council has arrangements in place to help with the effective preparation of revised financial statements and we are planning to review the restatement exercise in early 2011.

## 4 Use of resources

- 4.1 We are required to be satisfied that proper arrangements have been established by the Council to secure economy, efficiency and effectiveness in the use of resources (value for money).
- 4.2 In June 2010 the Government announced the abolition of Comprehensive Area Assessment. As a result, the Audit Commission announced changes to its use of resources approach, effective immediately, which included removal of the scored judgements for use of resources assessments in local government bodies. It was still necessary, however, for auditors to complete sufficient use of resources assessment work to support their statutory duty to give a value for money conclusion. In practice, much of the use of resources assessment had already been completed at the time of the announcement, in order to meet the prior deadline of submitting indicative scores to the Audit Commission by 21 April 2010.
- 4.3 The Audit Commission is currently consulting on proposed changes to the work completed by auditors in relation to value for money and we anticipate further information will be available at the end of the autumn

### Use of Resources Audit Work

#### Approach

- 4.4 In accordance with our audit plan, our principal work in relation to arriving at our value for money conclusion was completing the Audit Commission's Key Lines of Enquiries (KLOEs). This included updating our assessment of the KLOEs which had been scored for 2008/09 to include actions taken by the Council to address any areas of weaker performance. And the assessment of a new KLOE for District and Borough Councils assessing the Council's use of 'natural resources'.
- 4.5 While the use of resources assessment will not be scored in 2009/10, we are required to consider areas where the Council's performance may be inadequate and whether our value for money conclusion should be qualified. We can confirm the Council has adequate arrangements in place in each KLOE area, as summarised below.
- 4.6 The Council has continued to evidence good performance in managing its finances and has maintained effective governance arrangements for managing the business of the organisation. The integration of financial and operational performance information remains a key strength and, coupled with the annual 'Priorities, Income and Efficiency Review' process, means the Council can be confident it has a sound framework to support the difficult financial decisions which lie ahead following the Government's Comprehensive Spending Review.
- 4.7 The Council has continued to develop its priorities with its partners to reflect the needs and diversity of its communities. There are clear linkages between the county-wide sustainable community strategy and the Council's objectives for economic development; community safety and community cohesion. An analysis of economic indicators and trends in the region is used to develop and maintain the focus of the Council's objectives for regenerating the area.
- 4.8 The influence of four Area Management Boards has widened in the year, with Cabinet Members and Service Directors working on each Board to improve the Council's collective understanding of community needs. The Council has successfully lobbied for additional investment in specific areas, such as enhanced services for older people and health services provided by the local Primary Care Trust based on its assessment of needs.
- 4.9 A key theme of our value for money assessment is the effectiveness of partnership working and the outcomes the Council is able to deliver with its partners. The Council has continued to evidence value for money from the significant investment it has made in the area through the specific grants the Government provides. The Council reports performance quarterly to the Hastings and Bexhill Economic Alliance Board, and engages it to review and evaluate

investment decisions and the distribution of grant funding. The arrangements ensure stakeholders understand the positive effects the Council's investment has towards joint objectives for securing employment, businesses growth; enhancing the voluntary sector and the development of skills among the local population. The Council has also continued to work successfully with the Hastings Local Strategic Partnership (LSP), and evaluated the key partnerships the LSP is involved in for effectiveness.

- 4.10 Our assessment of natural resources considered the extent to which the Council:
- understands and can quantify its use of natural resources and can identify the main influencing factors
  - manages performance to reduce its impact on the environment
  - manages the environmental risks it faces, working effectively with partners.
- 4.11 The Council established an environmental policy in 2004 and has kept this under review. The latest policy was agreed in March 2010 and is underpinned by a baseline assessment of energy and water usage. The policy aims to achieve a better corporate framework, bringing together policies for Biodiversity and Sustainability. A Sustainable Procurement Policy is in place with procurement decisions evaluated against the policy to support the development and future achievement of the environmental strategy. Targets are set with progress monitored through the performance management framework. Performance is published in the corporate plan. In November 2009, the Council evidenced its commitment to reducing its carbon footprint and adopted the targets set by the Global '10:10 climate change' campaign. To underpin the commitment, the Council is developing its own 'Answers in the Carbon Economy' proposals, working towards its ambitions to tackle the impact of climate change with partners in a measured way.

## Use of resources risks

- 4.12 The findings from our review of use of resources risks identified in our audit plan are summarised as follows:

Risk area	Findings and Conclusion
<b>Achievement of efficiency savings</b>	We reviewed the achievement of the Council's stated efficiency savings as part of our VFM assessment. The Council has undertaken further modelling of the expected impact of the Government's Comprehensive Spending Review to inform the financial planning and decision making processes.
<b>Review of developments in workforce arrangements.</b>	Following our review of workforce as part of the Use of Resources assessment in 2009, we identified some areas for improvement in the Council's arrangements which have continued to develop in the year. For instance, ensuring service plans more closely align with corporate workforce planning which is increasingly focussed on examining new ways of delivering services.

## Value for money conclusion

- 4.13 Our value for money conclusion is based on considering our judgements from 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 the Annual Governance Statement. Our judgements against the Audit Commission's value for money conclusion criteria are set out in the table below:

Value for money conclusion criteria	Yes/No
1. Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	Yes
2. Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	Yes
3. Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	Yes
4. Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	Yes
5. Does the organisation produce relevant and reliable data and information to support decision making and manage performance?	Yes
6. Does the organisation promote and demonstrate the principles and values of good governance?	Yes
7. Does the organisation manage its risks and maintain a sound system of internal control?	Yes
8. Is the organisation making effective use of natural resources?	Yes
9. Does the organisation manage its assets effectively to help deliver its strategic priorities and service needs?	Yes
10. Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?	Yes

### ***Overall conclusion***

- 4.14 Our overall conclusion is that adequate arrangements are in place to secure value for money.

## Appendix A: Action Plan

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
<b>Financial statements</b>					
<p><b>Review of accounts</b></p> <p>Following completion of the audit, there were a number of amendments made to the financial statements. These arose from both testing of balances in the accounts and our review of consistency. Some errors could have been identified by officers prior to our receipt of the accounts.</p>	<p>As part of the final preparation of the financial statements, the Council should complete an independent review for reasonableness.</p>	<p>Medium</p>	<p>The Head of Financial Services and the Chief Accountant will seek to identify additional time for review when closing the 2010/11 accounts</p>	<p>Head of Financial Services/ Chief Accountant</p>	<p>June 2011</p>

## Appendix B Uncorrected misstatements

The table below details the potential differences recorded during the audit which are not adjusted for currently within the financial statements:

Unadjusted misstatements	Income Over/ (Under) £'000	Expenses (Over)/ Under £'000	Assets (Over)/ Under £'000	Liabilities Over/ (Under) £'000	Reserves (Over)/ Under £'000	Management comments
<b>Misstatements of fact (specific misstatements)</b> Fixed Assets (Investment Properties) Capital Adjustment Account			133		(133)	The amount is not material and will be reviewed as part of the revision of accounts in 2010/11 under the requirements of IFRS.
<b>Misstatements of subjective decisions (estimates or application of accounting policy)</b>						
<b>Likely misstatements (extrapolation of errors)</b>						
<b>Total net misstatements</b>					0	
<b>- Net understatement of costs</b>						
<b>- Net overstatement of net assets</b>					0	



## Appendix C: Draft letter of representation

PKF (UK) LLP  
Farringdon Place  
20 Farringdon Road  
London  
EC1M 3AP

28 September 2010

Dear Sirs

### **Financial statements of Hastings Borough Council for the year ended 31 March 2010**

#### **Representations of the Chief Finance Officer (the Deputy Chief Executive and Director of Corporate Resources)**

I confirm to the best of my 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 for the year ended 31 March 2010.

#### **Responsibility for the financial statements**

I acknowledge as the Chief Finance Officer and s151 Officer my responsibilities for the financial statements.

#### **Completeness of information**

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 committee meetings (held during the year and up to the date of this letter) have been made available to you.

#### **Internal control**

I acknowledge my responsibility for the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that are free from misstatement, whether arising from fraud or error.

#### **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 and of any allegations of fraud or suspected fraud affecting the financial statements communicated to me by employees, former employees, councillors, regulators or others.

#### **Compliance with law and regulations**

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

#### **Transactions with related parties**

I confirm that I have put in place appropriate arrangements to identify related party transactions.

I am satisfied that the disclosure in the financial statements of related party transactions is appropriate and complete and contains all the elements necessary for an understanding of the financial statements.

#### **Contingent liabilities**

Other than those disclosed in the financial statements, I am not aware of any significant contingent liabilities, including pending claims, proceedings or litigation involving the Council.

**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 3.8%
- Rate of increase in salaries 5.3%
- Rate of increase in pensions 3.8%
- Rate for discounting scheme liabilities 5.5%

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

**Fair value measurements and disclosures**

I am satisfied the carrying value of land and buildings is a reasonable representation of their value at 31 March 2010.

**Subsequent events**

There have been no events since the balance sheet date, other than those disclosed within the financial statements, which necessitate revision of the figures included in the financial statements or inclusion of a note thereto. Should any material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Yours faithfully

**Neil Dart**  
**Deputy Chief Executive and Director of Corporate Resources**

***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 financial statements.

**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 Chief Finance Officer for not correcting these misstatements. 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 John Wilson**  
**Audit Committee Chair**

Signed on behalf of the Council

## Appendix D: Draft independent auditors' report

### Independent auditor's report to the Members of Hastings Borough Council

#### *Opinion on the accounting statements*

We have audited the Authority accounting statements and related notes of Hastings Borough Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Hastings Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

#### **Respective responsibilities of the Chief Finance officer (the Deputy Chief Executive and Director of Corporate Resources) and auditor**

The Chief Finance Officer (the Deputy Chief Executive and Director Corporate of Resources) responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority and its income and expenditure for the year.

We review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information we are aware of from our audit of the accounting statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounting statements. Our responsibilities do not extend to any other information.

#### **Basis of audit opinion**

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by

fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

### **Opinion**

In our opinion the Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

### ***Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources***

#### **Authority's Responsibilities**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

#### **Auditor's Responsibilities**

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### **Conclusion**

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, we are satisfied that, in all significant respects, Hastings Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

### ***Certificate***

We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

**Robert Grant**  
**Partner, on behalf of PKF (UK) LLP**  
London, UK

30 September 2010