



Accountants &
business advisers

Hastings Borough Council
Annual Governance Report
2011/12

September 2012

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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.

We accept no responsibility for any reliance that might be placed on reports and letters for any purpose by third parties, to whom it should not be shown without our prior written consent.

[Code of Audit Practice](#)

[Statement of Responsibilities](#)

1 Executive summary

- 1.1 The purpose of this report is to communicate to you the significant findings from the audit of Hastings Borough Council's financial statements and arrangements to secure economy, efficiency and effectiveness in the use of resources.
- 1.2 We are pleased to report the Council continues to prepare and publish its annual financial statements effectively. Our audit work was completed in accordance with the agreed timetable. Working papers provided to us were comprehensive and audit queries were quickly resolved with the assistance of officers. The 2011/12 statements contain transactions relating to significant projects the Council commenced in the year. We worked with officers to review the accounting and other advice taken by the Council before the financial statements were produced, ensuring a common understanding of the technical issues arising. The key issues arising from our work are set out below.

Area of audit	Findings and conclusion
Financial statements	
Financial statements	<p>Due to a transposition error, the classification of trade debtors and prepayments in the notes to the balance sheet was amended. The amount involved was £1 million. We suggested a number of amendments to disclosures and aspects of the presentation of the financial statements. These amendments have been made.</p> <p>None of the amendments affected the reported financial position.</p> <p>While we identified a number of specific risks in planning our audit work, no significant issues arose from our audit of the financial statements and our work was completed in accordance with our plans.</p> <p>We will be issuing an unqualified true and fair opinion on the financial statements for the year ending 31 March 2012.</p>
Annual governance statement	We are satisfied that the Annual Governance Statement is not inconsistent or misleading with other information we are aware of from our audit of the financial statements.
Whole of government accounts	We are satisfied that the whole of governments account return was consistent with the audited financial statements.
Internal controls	The key financial systems are generally adequate as a basis for preparing the financial statements. Testing of controls, as completed by Internal Audit on our behalf, has not identified any significant issues.
Use of resources	
Value for money conclusion	We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2012. We will be issuing an unqualified value for money conclusion.

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 International Standards on Auditing (ISAs) (UK and Ireland) and the Code of Audit Practice require that we report to those responsible for financial governance and reporting (those charged with governance) the key findings of our audit prior to issuing our opinion on the financial statements and our value for money conclusion. 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 ended 31 March 2012.
- 2.2 Our report is presented to the Audit Committee in accordance with the provisions of ISA (UK & Ireland) 260 *Communication with those charged with governance*, ISA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance* and Management, and the Audit Commission's *Code of Audit Practice*.
- 2.3 The contents of this report have been discussed and agreed with the Head of Finance. We have reported separately to the outcome of our review of internal controls. We have reported verbally to management other non-significant findings from our audit.

Findings

- 2.4 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.
- 2.5 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 have only restated weaknesses already reported by Internal Audit where we consider these to be significant.

Fee outturn

- 2.6 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 your Audit Plan. The table below sets out this analysis:

Work area	Planned Fee £	Actual Fee £	Variance £
Code audit			
Financial statements including WGA and risk based work	74,350	74,350	74,350
Use of resources audit to support the value for money conclusion	32,650	32,650	32,650
Subtotal (Audit)	107,000	107,000	107,000
Certification of claims and returns (estimated)	40,000	25,000	(15,000)
Grant claims report to those charged with governance	750	750	0

- 2.7 A number of the grant claim audits are currently in progress or do not require certification until later in the year and therefore the actual fee remains an estimate at this time. The final position will be reported in our grants report to be issued on completion of this work, although we expect the fee to be considerably lower than our original estimate in light of the work performed by Internal Audit and the removal of the claim for disabled facilities grants from the audit regime.

Independence

- 2.8 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 2011/12, has remained valid throughout the period of the audit.

3 Financial statements

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. To do this 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.

3.2 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 and actual misstatements.

3.3 We consider misstatements of less than £30,000 to be trivial to the financial statements, unless the misstatement is indicative of fraud, and have not reported them. This is unchanged from the triviality level that was reported in our Audit Plan.

Reporting to those charged with governance

3.4 We have set out below those matters relevant to our audit that, under auditing standards, require reporting to those charged with governance or which we believe should be reported to you to assist you with your governance duties.

Significant risks of material misstatement

3.5 Auditing standards require that we bring to your attention areas that require additional or special audit consideration and are, therefore, considered a significant risk. These may include weaknesses in controls or areas requiring a higher degree of judgement by management.

3.6 We reported our risk assessment in the 2011/12 Audit Plan issued in February 2012. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls, publication of the final IFRS Code of Practice by Cipfa and review of the Council's draft financial statements, and concluded that there are no changes to the significant risks previously reported.

3.7 The significant audit risks identified during our risk assessment and communicated to you in our Audit Plan, and our audit response to those risks, are set out below.

Management override and accounting estimates

3.8 We are required to consider management override of controls to be a significant risk in all audit engagements under auditing standards as discussed in our 2011/12 Audit Plan. Our review of management journals and accounting estimates did not indicate any material management bias or override of controls in preparing the financial statements.

Revenue Recognition

3.9 Auditing standards presume that there are risks of fraud in revenue recognition. These risks may arise from the use of inappropriate accounting policies or failure to apply the Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue.

3.10 Our review of the use of stated accounting policies and consideration of the use of estimates in the calculation of revenue has not indicated any risk of fraud in revenue recognition.

Financial management system upgrade

3.11 The Council upgraded its financial management system (Agresso) from version 5.4 to version 5.5 in October 2011. The upgrade introduced significant changes and required all

data in the previous version to be transferred to the new version. This presented a significant audit risk over the accuracy and completeness of the general ledger and the transfer of data between subsidiary systems.

- 3.12 The systems upgrade was implemented in partnership with Rother District Council and Lewes District Council. Rother led the implementation of the project and its Internal Audit service carried out a review of the project management arrangements across the three authorities. The detailed audit work completed in this area by Hastings Internal Audit section has not identified any errors and we are satisfied the data used in the preparation of the financial statements is materially correct.

Local Authority Mortgage Scheme

- 3.13 The Local Authority Mortgage Scheme (LAMS) is an initiative designed to support first time buyers in securing mortgages. The scheme is new to local government and a number of local authorities, including Hastings, implementing the scheme in 2011/12. We reviewed the accounting and other advice (legal and technical) taken by Hastings in implementing the scheme to ensure the transactions, which are material to the Council's accounts, were appropriately disclosed as at 31 March 2012.

Partnership working with a Housing Association

- 3.14 The Council is working with a Housing Association to deliver affordable rental accommodation in the St. Leonards area through the refurbishment of empty properties. The refurbishment work is being carried out by the Council, under the direction of the Housing Association, with the Council also using its compulsory purchase order (CPO) powers to acquire properties for the project. On completion of works, the properties are due to be transferred to the Housing Association and then made available to local people to rent.
- 3.15 We worked closely with officers to review the accounting entries proposed (by the Council) to ensure the Cipfa Code and relevant accounting standards were followed. We also reviewed the legal and other technical advice taken, including accounting for VAT. The following transactions are included in the 2011/12 financial statements:
- receipt of £2 million from the Housing Association (classified as a grant received in advance)
 - expenditure of £189,000 for the purchase of a property
 - the release of £189,000 of the grant to the comprehensive income and expenditure account to resource expenditure incurred as at 31 March 2012
 - inclusion of the cost of the acquisition (£189,000) as an asset held for sale as at 31 March 2012.

Accounting practices

Financial statements preparation

- 3.16 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 provided to us on 28 June 2012. Some amendments were made to the analysis of balances contained in the fixed asset note (note 14) after our initial audit work had been completed. We agreed the revised balances were materially correct.
- 3.17 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 26 June 2012, in line with the agreed timetable.

Testing of transactions and balances

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

Balance Sheet

Property, Plant and Equipment (PPE)

Componentisation

- 3.19 The Cipfa Code requires local authorities to identify the significant components of material property, plant and equipment assets. Each part of such items with a cost that is significant in relation to the total cost of the asset should be depreciated separately.
- 3.20 In 2010/11, the Council concluded that three properties fell within the Code's definition to be componentised and appropriate valuations were obtained as 1 April 2011, with the expectation depreciation would be charged in 2011/12. The Council has reviewed the amount of depreciation involved and decided not to charge services based on its componentisation policy because the value is immaterial. As a consequence, we estimate the amount of depreciation charged on the Council's buildings as at 31 March 2012 is overstated by £38,000, though the amount is highly 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 B.

Asset revaluations

- 3.21 The Cipfa Code requires Councils to obtain formal revaluations of non current assets (including PPE) at least every five years. Valuations should be made with sufficient regularity to ensure the carrying value of assets does not differ materially from the fair value at the end of the reporting period.
- 3.22 Our review of the fixed asset register found that fixed assets (land and buildings) with a total value of £496,000 had not been valued for over five years and as a consequence, the Council's policies had not been fully followed. We discussed the situation with officers, who concluded there was no significant change in the value of the assets between 2007 and 2012.

Fully depreciated assets

- 3.23 We reviewed the fixed asset register and identified eleven assets (such as infrastructure assets and ICT equipment) the Council continued to use but where a 'nil' value was assigned because the asset was fully depreciated. The Council completed a review in August 2012 and concluded the total value of such assets is below its de minimus level (£50,000) and that the assets should not be included in the fixed asset register.

Accounting policies

- 3.24 The following changes have been introduced by the *2011 Code of Practice on Local Authority Accounting in the United Kingdom* (the 'Code'), resulting in changes in accounting practice relevant to Hastings:
- the adoption of FRS 30 *Heritage Assets*, requiring that heritage assets are carried at valuation, with comprehensive disclosure note requirements
 - amendments to the related party disclosures required in respect of central government departments, government agencies, NHS bodies and other local authorities to clarify the nature of those related party relationships and simplify the information disclosed
 - new disclosure requirements for exit packages to disclose the number and cost of exit packages agreed in the year.

- 3.25 The Council has dealt with the implementation of these changes in an appropriate manner.

Accounting estimates

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

Valuation of fixed assets

- 3.27 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 where material changes in the value have occurred in the year or as a minimum every five years as part of a rolling programme. The Council does not adjust for price indices between formal valuations, which the Code accepts as accepted practice.
- 3.28 Valuation reports for land and buildings and useful economic lives are prepared by an independent valuer with specialist knowledge and experience of valuing local authority assets, 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.
- 3.29 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 showed that they are not unreasonable.
- 3.30 The Code requires that management reviews the residual value, useful life and depreciation method of all classes of assets at the year end to confirm that annual depreciation charges properly reflect the consumption of those assets. Where these differ significantly from previous estimates the impact on the annual and future depreciation charges should be disclosed in the financial statements.
- 3.31 Management confirmed it has undertaken an informal review of useful lives, depreciation methods and residual values and that the existing assumptions remain appropriate. However, the evidence retained by management to support their review of useful economic lives is limited and no information was provided in the draft financial statements about the expected economic lives of assets. We have recommended that management more fully document the annual review of the useful economic lives of fixed assets.

Recoverability of debtor balances

- 3.32 The Council calculates the annual allowance for the impairment of debtors based on its assessment of recoverability. Management reviews all debts, and specific amounts considered irrecoverable are included in the assessed impairment amount at year end. Most categories of the Council's debtors are not subject to substantial fluctuation and management applied percentages to the aged profile of these debts, based on past experience and future expectations of recoverability, to estimate the allowance for doubtful debts.
- 3.33 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

- 3.34 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.

- 3.35 An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation.
- 3.36 Management has agreed the assumptions made by the actuary to support the estimate and these are included in the financial statements. We have requested written representations from the Council to confirm that the assumptions applied by the actuary are reasonable and consistent with its knowledge of the business of the Council.
- 3.37 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

- 3.38 We identified a 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. None the amendments the overall financial position reported. The principal amendments made are:
- inclusion, in line with the requirements of IFRS 8, of the reasons supporting the restatement of two of the prior period figures within the accounts (within the Income and Expenditure account and Note 7)
 - amendment to the analysis of earmarked reserves (note 8) to ensure brought forward balances are consistent with those in the prior period audited accounts
 - revision to the value of capital commitments (to include amounts over £100,000 following a request from us) within the financial statements to £524,000 (part of PPE disclosure in note 14)
 - additional details in respect of the nature and purpose of each class of provision included at the year end (note 24)
 - reclassification of amounts and values in respect of 'NHS payables and 'all other bodies' payables disclosed (note 22)
 - revision to the financial instrument disclosures (note 38) to ensure correct disclosures and automated calculations are correct
 - revision to the number of employees receiving termination benefits and/or exit packages (note 41) to ensure all individuals have been included
 - additional analysis of the 'other non cash movements' disclosures within the cash flow statement (note 42)
 - inclusion of additional information about the circumstances leading to the significant impairment charges within the accounts (notes 14 and 47)
 - amendment to the disclosure of chargeable properties within the analysis of the Council tax base (note 3 to the Collection Fund)
 - a number of other minor amendments to disclosures made following our review of the financial statements against the Cipfa disclosure checklist.
- 3.39 We have discussed the above matters with officers and appropriate amendments have been made to the accounts.

Uncorrected misstatements

- 3.40 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. Where these have been identified they have been included with Appendix B.

- 3.41 We have identified some non trivial misstatements based on estimates which management have not adjusted in the financial statements, these have been outlined above and are detailed in Appendix B.

Misstatements corrected by management

- 3.42 As a result of our work we recommended amendments to the presentation of certain amounts contained in the financial statements or where notes and other disclosures were not been presented in accordance with the guidance in the Code of Practice. These have been amended by the Council.

Amendments made to the balance sheet notes

Classification of trade debtors (note 19)

Prepayments overstated £1,019,000
Trade debtors understated £1,019,000

- 3.43 Our audit found the Council incorrectly classified the trade debtors amount disclosed at note 19 (Debtors) because a transposition error was made. The error meant the prepayments amount was overstated by £1,019,000 and the trade debtors amount understated by the same amount. Officers amended the accounts and there is no impact on the overall financial position reported as at 31 March 2012.

Non-Trivial error

Trade receivables understated £77,000
Trade payables understated £77,000

- 3.44 Our audit found the Council included a 'credit' balance for rent received in advance within the trade receivables balance (debtors). The total value of such amounts was £77,000 and the trade receivables balance and the trade payables balance were understated accordingly. Officers amended the accounts (notes 19 and 22 respectively) and there is no impact on the overall surplus reported as at 31 March 2012.

Accounting and internal control systems

- 3.45 We have reviewed the Council's key financial and operational systems which contribute to the preparation of materially accurate financial statements. The purpose of the audit is for us to express an opinion on the financial statements. Our audit is not designed to identify all deficiencies in the system of internal control or to identify all improvements which might be necessary to address the deficiencies identified.
- 3.46 The audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control; and we report only those deficiencies that have come to our attention as a result of our audit work and that we have concluded are of sufficient importance to merit your attention.
- 3.47 The financial systems we have considered are:
- Main accounting
 - Cash and bank
 - Payments and creditors
 - Other income and debtors
 - Payroll and employment costs
 - Council tax
 - Housing and Council tax benefits
 - National Non Domestic Rates
 - Investments and investment income
 - Information technology

- 3.48 Where possible, we sought to use the work of Internal Audit and thereby avoid unnecessary duplication of audit effort. The Internal Audit section has satisfactorily carried out a programme of work and we were able to place reliance on such work for the testing of the effectiveness of specific controls. No issues arose from the work of Internal Audit we need to report to the Audit Committee.

Written representations

- 3.49 We are required by ISAs to obtain written confirmation from you of certain representations that have been made during the course of our audit. The letter of representation has been attached as Appendix C.
- 3.50 We do not anticipate any changes being required before providing our opinion on the financial statements.

Other audit matters of governance interest

- 3.51 We are required to communicate other audit matters of governance interest that arise from the audit of the financial statements, as shown below.

Annual Governance Statement

- 3.52 We have reviewed the 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.

Whole of government accounts

- 3.53 Our work to review the consistency of the whole of government accounts return with the audited financial statements is in progress and a verbal update will be given at the Audit Committee meeting on 26 September

Foreword to the Statement of Accounts

- 3.54 We read the Foreword to the Statement of Accounts although this is not part of our true and fair opinion on the financial statements. The Foreword includes the required content specified by the Code and provides an overview of the financial statements. As in prior years it also includes a very detailed analysis of the expenditure of the Council for the period, which is consistent with that in the financial statements.

Audit report

- 3.55 Subject to satisfactory resolution of the following outstanding issues and final clearance of the audit, we anticipate issuing an unqualified audit opinion on the financial statements:
- receipt of the IAS19 letter of assurance from the auditor of the East Sussex Pension Fund.
- 3.56 We will provide a verbal update on the outstanding issue at the Audit Committee.
- 3.57 The Chief Finance Officer confirmed there has been no material fraud at the Council in the year. Our audit work did not identify any significant fraud risks that affected our audit programme for the financial statements.

4 Use of resources

- 4.1 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).
- 4.2 In accordance with our Audit Plan, our principal work in arriving at our value for money conclusion was comparing the Council's performance against characteristics specified by the Audit Commission in its guidance to auditors. The focus of our work in 2011/12 involved reviewing the financial resilience of the organisation and its arrangements for securing economy, efficiency and effectiveness in the use of resources.

Financial resilience

- 4.3 The Council continues to provide strong leadership on financial matters through the work of the Cabinet and the Senior Management Team, with stakeholders (including staff) contributing to the development of financial plans. A key development in the year was the action taken by the Council to restructure its senior management team based on the outcome of its consultation. The Council has now reduced the number of senior manager posts and removed the post of Chief Executive from its establishment. The Council understands it needs to keep the outcome of its decision under review as its future financial and operational plans are delivered.
- 4.4 The annual budget preparation and medium term financial planning processes reflect Hastings' priority areas for service improvement and delivery, as well as the impact of known resource changes in the short to medium term (such as the removal of the Government's transitional funding for Hastings). The Council continued to manage its resources effectively throughout the year, with direct service expenditure on services amounting to £1.1 million less than the revised budget amount. Based on the achievement of its efficiency plans and the receipt of transitional funding, the Council has increased the level of the general reserve by £1.4 million to £3 million as at 31 March 2012. It has also, in line with the medium term financial strategy, established new revenue reserves (such as the redundancy and the economic development reserves) to assist in providing a sound financial platform to meet its priorities.
- 4.5 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. The 2012/13 budget is balanced. 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 and balances in service improvement are being kept under close review by the Cabinet and the Senior Management Team.

Challenging economy, efficiency and effectiveness

- 4.6 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 consider the impact of financial decisions on Council priorities. This process enables the integrated service and financial planning approach and provides evidence the Council understands the impact of its expenditure plans on future service performance. Achievement of operational plans for service delivery and efficiency savings, is monitored through the regular reports to the Council's Cabinet and Scrutiny Committees.
- 4.7 In previous years, the 'PIER' process prioritised the financial challenges facing the Council for attention based on outcome of stakeholder consultation. The development of future service and financial plans is underpinned by a comprehensive analysis of options including cost and benchmarking information. 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), 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 outcome of such initiatives on front-line services will need to be kept under close review.

- 4.8 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 is now in place to secure the procurement of waste collection services across four Districts. Resources are being pooled to maximise the procurement savings available to all Councils involved.
- 4.9 The Council commenced a project in the year to assist first time buyers in entering the housing market through its partnership with Lloyds bank (the 'Local Authority Mortgage Scheme'). Hastings has agreed to provide guarantees amounting to £1 million for local people eligible for the scheme and who meet the lending criteria specified by Lloyds. As at the end of July 2012, 22 mortgages were completed and a further 12 were under offer, with a total of £950,000 guaranteed by the Council. The Council expects to support 36 local people in total and considers the project to have been successful with none of the mortgagees identified as being at risk of default.
- 4.10 The partnership with a housing association also commenced with one property purchased in the year (designed to deliver five units of housing) and other properties identified for development in 2012/13.
- 4.11 Both partnerships are assisting the Council in working towards its priorities for improving access to affordable housing and the economic regeneration of the area.

Audit report (value for money conclusion)

- 4.12 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.
- 4.13 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 2012. We will be issuing an unqualified value for money conclusion.

Appendix A: Action Plan

Conclusions from work	Recommendations	Management responses	Responsibility	Timing
Financial statements				
<p>Asset useful lives</p> <p>The Code requires that management reviews the residual value, useful life and depreciation method of all classes of assets at the year end to confirm that annual depreciation charges properly reflect the consumption of those assets. Management has stated that it has undertaken an informal review, although there is limited evidence available to support this and no information was provided in the draft financial statements about the expected economic lives of assets.</p>	<p>We recommend that management ensure the annual review of useful lives is fully documented.</p>	<p>Agreed</p>	<p>Chief Accountant</p>	<p>March 2013</p>

Appendix B: Uncorrected misstatements

The table below details the potential differences recorded during the audit that have not been adjusted for within the financial statements:

Uncorrected misstatements	Income Over/ (Under) £'000	Expenses (Over)/ Under £'000	Assets (Over)/ Under £'000	Liabilities Over/ (Under) £'000	Reserves Over/ (Under) £'000
Factual misstatements					
Judgemental (estimation) misstatements					
Over depreciation of assets due to the impact of componentisation.		(38)	38		(38)
Projected misstatements (extrapolation of errors)					
Total net misstatements		(38)	38		(38)
- Net understatement of costs					
- Net overstatement of net assets					

Appendix C: Letter of representation

Representations for the preparation of the Statement of Accounts (as set out below), which includes the financial statements, will be sought from the Director of Corporate Resources (as the Responsible Financial Officer) and from Members on behalf of the Council in relation to its responsibility to approve the Statement of Accounts and the Annual Governance Statement.

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

28 September 2012

Dear Sirs

Financial statements of Hastings Borough Council for the year ended 31 March 2012

This representation letter is provided in connection with your audit of the financial statements of Hastings Borough Council for the year ended 31 March 2012 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.

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

FINANCIAL STATEMENTS

Responsibility for the financial statements

I acknowledge as the Head of Finance 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.

Accounting policies

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

Significant assumptions

The following significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable and appropriate:

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 (RPI / CPI) | 2.5% |
| • Rate of increase in salaries | 4.8% |
| • Rate of increase in pensions | 2.5% |
| • Rate for discounting scheme liabilities | 4.8% |
| • 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 2012, and that no adjustment is required to those assets that were revalued as part of the five-year rolling programme in previous years.

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.

Provisions

I confirm that, in respect of the provisions that have been included in the financial statements, the amounts included are in respect of identified liabilities and are likely to be fully utilised in the 2012/13 financial period.

Heritage Assets

The Council obtained a valuation for its Heritage Assets from an independent valuer as at 1 April 2011. The Council did not obtain an independent valuation as at 1 April 2010. I have therefore considered the information available to the Council in order to estimate the value of Heritage Assets as at 1 April 2010. I confirm the amounts included in the financial statements as at 1 April 2010 are based on a reasonable approach.

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

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 one possible misstatement to my attention based on an estimation. The amount is not material and I do not consider the accounts should be amended.

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.

Comparative information

I confirm that, in respect of the restatement to implement the Heritage Assets accounting policy changes the adjustments relate to a change in accounting policy as we believe that the new accounting policy is more appropriate, and accordingly to ensure the consistency of accounting treatment between periods it is necessary to restate the current and corresponding periods on the basis of the new policy.

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 am not aware of any fraud or suspected fraud affecting the financial statements, nor have any allegations of fraud or suspected fraud affecting the financial statements been communicated to me by employees, former employees, councillors, regulators or others.

Compliance with law and regulations

I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations, whose effects should be considered when preparing the financial statements.

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.

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.

Related parties

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

Liabilities, contingent liabilities or guarantees

There are no liabilities, contingent liabilities 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.

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 Director of Corporate Resources 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 Corporate Resources 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 Peter Pragnell
Audit Committee Chairman

Signed on behalf of the Council

Note: Appendix 1 referred to in this letter relates to Appendix B in this report

Appendix D: Auditors Opinion

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HASTINGS BOROUGH COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of Hastings Borough Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Head of Finance and auditor

As explained more fully in the Statement of the Head of Finance's Responsibilities, the Head of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Hastings Borough Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

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 to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

We planned our work in accordance with the Code of Audit Practice. Based on my risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, we are satisfied that, in all significant respects, Hastings Borough

Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

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

Signature: _____

Robert Grant
For and on behalf of PKF (UK) LLP
London, UK

xx September 2012