HASTINGS BOROUGH COUNCIL

AUDIT COMPLETION REPORT

Audit for the year ended 31 March 2018

30 July 2018

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CONTENTS

WELCOME

We have pleasure in presenting our Audit Completion Report to the Audit Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2018, specific audit findings and areas requiring further discussion and/or the attention of the Audit Committee. At the completion stage of the audit it is essential that we engage with the Audit Committee on the results of audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit Committee meeting on 31 July 2018, and to receiving your input.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and use of resources. This report has been prepared solely for the use of the Audit Committee and those charged with governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person.

This report contains matters which should properly be considered by the Council as a whole. We expect that the Audit Committee will refer such matters to the Council, together with any recommendations, as it considers appropriate.

We would also like to take this opportunity to thank the management and staff of the Council for the co-operation and assistance provided during the audit.

OVERVIEW

This summary provides an overview of the audit matters that we believe are important to the Audit Committee in reviewing the results of the audit of the financial statements and use of resources of the Council for the year ended 31 March 2018.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

AUDIT SCOPE AND OBJECTIVES	
Audit status	We have substantially completed our audit procedures in accordance with the planned scope and our objectives have been achieved, subject to resolution of matters set out in the outstanding matters section below.
Audit risks update	No additional significant audit risks were identified during the course of our audit procedures subsequent to our Audit Plan dated 27 February 2018.
Materiality	Our final materiality is £1.68 million.
Changes to audit approach	There were no significant changes to our planned audit approach nor were any restrictions placed on our audit.
KEY AUDIT AND ACCOUNTING MATTERS	
Material misstatements	Our audit identified no material misstatements that resulted in adjustment to the deficit on provision of services. However, we found one material misstatement in respect of the disclosure for future minimum lease payments receivable on operating leases due to an error in the formula in the spreadsheet that resulted in an increase in future payments receivable of £7 million. This has been corrected by management.
Unadjusted audit differences	Our audit identified two errors above our reporting threshold that would reduce the deficit for the year by £39,000.
Control environment	Our audit identified no significant deficiencies in internal controls.
KEY MATTERS FROM OUR AUDIT OF USE OF RESOURCES	
Sustainable resource deployment	The 2018/19 and 2019/20 budgets reflect further reductions in Government support and requires £1 million from reserves in each year to deliver a balanced budget. In the medium term, there are budget shortfalls of £1.9 million in 2020/21 and £2.4 million in 2021/22 that will need to be addressed. The Council holds significant reserves to support the budget shortfalls in the coming years although there remains a challenge to close the funding gap in the medium term. While there is a recognised funding gap in the MTFS, we are satisfied that the Council has appropriate arrangements to continue to remain financially sustainable over the period of the MTFS.

OVERVIEW

AUDIT OPINION	
Financial statements	We anticipate issuing an unmodified opinion on the financial statements for the year ended 31 March 2018.
Annual Governance Statement	We have no exceptions to report in relation to the consistency of the Annual Governance Statement with the financial statements or our knowledge.
Use of resources	We anticipate issuing an unmodified opinion on the arrangements in place to secure economy, efficiency and effectiveness in the use of resources for the year ended 31 March 2018.
OTHER MATTERS FOR THE ATTENTION OF THE AUDIT COMMITTEE	
Whole of Government Accounts (WGA)	The Council is below the audit threshold of £500 million for a full assurance review of the WGA Data Collection Tool.
Audit independence	Our observations on our audit independence and objectivity and related matters are set out in Appendix IV.
Management letter of representation	The draft management letter of representation, to be approved and signed, is set out in Appendix VI.

OUTSTANDING MATTERS

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

1. Partner review of audit evidence and key judgements
2. Final review and approval by you of the Statement of Accounts
3. Subsequent events review
4. Management letter of representation, as attached in Appendix VI to be approved and signed

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT RISKS

We have assessed the following as audit risks from our audit planning. We set out how these risks have been addressed and the outcomes of our work.

Key: ■ Significant risk ■ Normal risk

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
1	**Management override of controls**	Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual. By its nature, there are no controls in place to mitigate the risk of management override.	We have: • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements	We have used data analytics software, BDO Advantage, to review the Council's general ledger, in order to focus our testing of journals on higher risk areas. Our detailed testing of a sample of journals did not identified any significant issues.
			• Reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud	We have not found any indication of management bias in accounting estimates. Our views on significant management estimates are set out in this report.
			• Obtained an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.	We have identified no significant or unusual transactions which we consider to be indicative of fraud in relation to management override of controls.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
2	**Revenue recognition**	Under auditing Standards there is a presumption that income recognition presents a fraud risk. In particular, we consider there to be a significant risk in respect of the existence (recognition) of revenue and capital grants that are subject to performance and / or conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES). We also consider there to be a significant risk in relation to the existence of fees and charges and investment rental income recorded in the CIES with a particular focus on year-end cut off.	We have: • Tested a sample of grants subject to performance and / or conditions to confirm that conditions of the grant have been met before the income is recognised in the CIES.	We found immaterial misclassification between grants income and fees and charges which were adjusted by management.
			• Tested a sample of fees and charges to ensure income has been recorded in the correct period and that all income that has been recorded should have been recorded.	We found no issues in our tested sample of fees and charges.

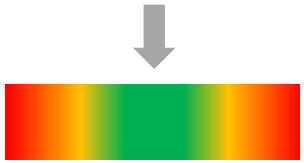
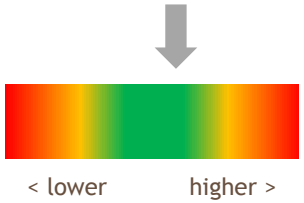
KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
3	**Valuation of land, buildings and investment properties**	Management uses external valuation data to assess whether there has been a material change in the value of classes of assets. Investment properties are revalued annually according to market conditions at year-end. Higher value operational properties (other land and buildings) are revalued annually to provide assurance that carrying values are materially stated, with the remainder of non-material value assets revalued periodically (minimum of every five years). Operational asset valuations are undertaken by external valuers. We consider there to be a risk over the valuation of land, buildings and investment properties where valuations are based on market assumptions or where updated valuations have not be provided for a class of assets at the year-end.	We have: • Reviewed the instructions provided to the valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert.	From our review of the instructions provided to the valuer and assessment of the expertise of the valuer, we are satisfied that we can rely on this work.
			• Reviewed the basis of valuation for a sample of assets valued in year and confirmed this was appropriate based on their usage.	We reviewed the valuation methodology applied and confirmed the basis of valuation for assets valued in year as appropriate.
			• Reviewed valuation movements against indices of price movements for similar classes of assets and followed up valuation movements that appear unusual against indices.	Our review of the reasonableness of valuation assumptions applied is noted on the following page.

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ESTIMATE		IMPACT
Land and buildings are valued by reference to existing use market values	**Other land and buildings - Existing use basis of valuation in an active market** The valuer undertook valuations on 30 assets (£21.2 million by value) at 31 March 2018 valued on an existing use basis where there is an active market. The valuer has obtained recent sales for similar asset and made adjustments to reflect the location, size and price movements since the sale. We have reviewed a sample of 16 valuations and checked the data used by the valuer and confirmed that appropriate similar recent sales had been used and that adjustment made by the valuer to reflect the valuation of the asset were appropriate. We compared the percentage movement of revalued assets to general market movements using information provided by Gerald Eve LLP and challenged the valuer for any valuations for six assets that were outside of an expected range. Reasonable explanations were provided for each asset. We concluded that the valuations for other land and buildings based on existing use in an active market are reasonable.	< lower higher >
Investment properties are valued by reference to highest and best use market value	**Investment properties** The valuer undertook valuations on four assets (£1.139 million by value) at 31 March 2018 using recent sales for similar properties and used rental amounts for the property and market yields of 8% to 9% to value the asset. We have reviewed all valuations and the data used by the valuer and confirmed that appropriate similar recent sales had been used, that rental amounts were checked to rental agreements, and the market yield applied was appropriate. We compared the percentage movement of revalued assets to general market movements using information provided by Gerald Eve LLP and challenged the valuer for any valuations for two assets that were outside of an expected range. Reasonable explanations were provided for each asset. We concluded that the valuations for investment properties are reasonable.	< lower higher >

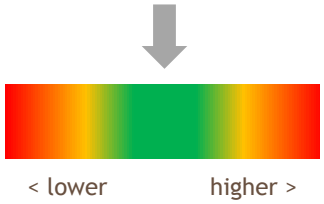
KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ESTIMATE		IMPACT
Some specialist buildings are valued at depreciated replacement cost by reference to building indices	**Other land and buildings - Specialist properties depreciated replacement cost (DRC)** The valuer undertook valuations on four assets (£15.2 million by value) at 31 March 2018, including a community centre, museum and theatre. DRC valuations are based on rebuild costs using up to date tender pricing information with an age / obsolescence adjustment to reflect its current condition and remaining economic life. The valuer has used tender rebuild prices provided by RICS with appropriate Hastings location cost adjustments, using an appropriate rebuild cost per square foot for each type of property. The valuer has applied an aging adjustment using the original build date of the property and standard useful economic lives for each type of property to reflect the percentage of the remaining economic live, with aging only coming into effect after the first 5 years of its life as little aging in the building is expected in these initial years. We have reviewed all valuations and the data used by the valuer and confirmed that the size (square foot) agreed to estates records and that the tender price used agreed to the RICS tender prices. We compared the percentage movement of revalued assets to general market from the BCIS tender price index with local pricing adjustments using information provided by Gerald Eve LLP and RICS, and challenged the valuer for four valuations that were outside of an expected range. Reasonable explanations were provided for each asset. We concluded that the valuations for other land and buildings based on depreciated replacement cost valuations are reasonable.	
Assets not revalued in year	**Assets not subject to revaluation in the year** The value of assets not revalued are £60.01 million by value. We reviewed these by class of assets and considered whether the balances could be materially misstated by reference to the Gerald Eve report of price movements. For assets valued at existing use, the potential uplift in valuation is still within an acceptable range of their carrying value. For asset valued using DRC, the price index suggests a significant uplift of up to 6.7% for tender prices. Using an acceptable range of +/- 4% for to reflect the inherent uncertainty in these valuations, this suggest an estimated increase of £103,000 above what would be acceptable compared to their carrying value. This is not material and therefore there is no requirement to obtain an updated valuation but this is above our reporting threshold and has been included as an estimated audit difference in Appendix II.	

KEY AUDIT AND ACCOUNTING MATTERS

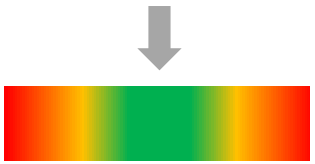
	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
4	**Pension liability assumptions**	The pension liability comprises the Council's share of the market value of assets held in the East Sussex County Council Pension Fund and the estimated future liability to pay pensions. An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the 2016 triennial membership data held by the pension fund, rolled forward, and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation at 31 March 2018 when calculating the liability. There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.	We have: • Checked the disclosures to the information provided by the pension fund actuary.	We have agreed the disclosures to the information provided by the pension fund actuary and identified no issues.
			• Requested assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.	No issues were reported by the pension fund auditor with regard to the controls over providing complete and accurate data to the actuary.
			• Requested assurance from the auditor of the pension fund to agree contributions paid and the overall investment returns in the fund to the data provided to the actuary and used in the updated valuation.	No issues were reported by the pension fund auditor with regard to the contributions paid and the investment returns in the fund to the data provided to the actuary. The pension auditor indicated that they did not receive
			• Checked whether there were any notifiable events that may require the actuary to update the roll-forward data for the valuation.	We have not identified any events that may require the actuary to update the roll-forward for the valuation.
			• Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.	Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations is noted in the following page.

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ESTIMATE				IMPACT
The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows	The actuary has used the following assumptions to value to future pension liability:			
	Actual	**Acceptable range**	**Comments**	
	RPI increase	3.4%	3.4%	Reasonable
	CPI increase	2.4%	2.4%	Reasonable
	Salary increase	2.8%	--	Reasonable (derived from RPI assumptions)
	Pension increase	2.4%	2.4%	Reasonable
	Discount rate	2.6%	2.6-2.7%	Reasonable
	Mortality - LGPS:			
	- Male current	23.8 years	23.5-26.6	Reasonable
	- Female current	26.3 years	26.2-26.9	Reasonable
	- Male retired	22.1 years	21.5-22.8	Reasonable
	- Female retired	24.4 years	24.1-25.1	Reasonable
	Commutation	50%	50%	Reasonable
	We have compared the assumptions and estimates used by the actuary with the expected ranges provided by the independent consulting actuary. We are satisfied that the assumptions used are not unreasonable or outside of the expected ranges.			< lower higher >

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
5	Consideration of related parties	We consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of the accounting standards. There is a risk that related party transactions disclosures are omitted from the financial statements, or do not accurately reflect the underlying related party transaction.	We have: • Reviewed information concerning any such identified transactions. • Discussed with management and reviewed member's and Senior Management declarations to ensure there are no potential related party transactions which have not been disclosed.	Our work did not identify any issues with the transactions with related parties. We performed Company house searches and we did not identify any undisclosed related parties.
6	Valuation of heritage assets	Where heritage assets are measured at valuation, the carrying amount shall be reviewed with sufficient frequency to ensure the valuations remain current. Heritage Assets are valued by an external valuer by reference to insurance valuations and are also revalued using a rolling programme. There is a risk over the valuation of heritage assets where valuations are not undertaken with sufficient frequency.	We have: • Reviewed the instructions provided to the valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert. • Confirmed that the basis of valuation for the various classes of heritage assets valued in year is appropriate.	From our review of the instructions provided to the valuer and assessment of the expertise of the valuer, we are satisfied that we can rely on this work. We reviewed the valuation methodology applied and confirmed the basis of valuation for heritage assets valued in year as appropriate.

ESTIMATE		IMPACT
Heritage Assets are valued by an external valuer by reference to insurance valuations and are also revalued using a rolling programme of valuation reviews	The valuer applied a 3% increase on the value of all heritage assets based on his estimate of market movements. This increase appears reasonable based on his report.	

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
7	Allowance for non-collection of receivables	The Council makes allowance for the non-collection of receivables relating to housing benefit overpayments, council tax, non-domestic rates and trade receivables. These allowances are management estimates based on historic experience, judgement and benchmarking against other similar authorities. There is a risk that the assumptions used may not be appropriate, which could lead to a misstatement of the allowance made.	We reviewed the provision model for significant income streams and debtor balances to assess whether it appropriately reflects historical collection rates by age of debt or arrears.	We did not identify any issues regarding the provision for the recoverability of receivables.

ESTIMATE		IMPACT
Allowance for non-collection of receivables	**Housing benefit overpayments** The Council has applied a provision rate of 50% to all overpayments, which is a reduction from the 65% used in the prior year. This was based on the Council doing an analysis of the recovery of the overpayments, which came to about 47%. We are satisfied with the provision at 50%. This results in a gain for the year of £435,000 to the CIES. **Council tax arrears** The council tax provision is a 2.8% provision for all Ctax still outstanding from 17/18 and a 100% provision for balances due from before 2008/09. We have considered this to be reasonable based on prior year collection rates and also the prior year provision rates. **NDR arrears** NNDR provision is a 1.5% provision for all NNDR still outstanding from 17/18 and a 100% provision for balances due from before 2012/13. This percentages used have been considered based on the prior year recovery rates and found to be reasonable, given the movements in small percentage changes of the provision. **Trade receivables** The Council has provided for all debts over 120 days and 50% provision for balances older than 90 days. This excludes all other local authorities and public bodies. This is considered reasonable as from prior experience these bodies are often slow to pay each other but do settle their debts in time. There is then a 10% provision against all other balance less than 90 days but greater than 10 days, again excluding other local authorities and public bodies.	< lower higher >

KEY AUDIT AND ACCOUNTING MATTERS

MATTERS REQUIRING ADDITIONAL CONSIDERATION		
We comment below on other matters requiring additional consideration:		
	AUDIT AREA	AUDIT FINDINGS
1	Fraud	Whilst the Chief Financial Officer (Assistant Director Financial Services) and members have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from those charged with governance on whether you are aware of any known, suspected or alleged frauds.

OTHER REPORTING MATTERS

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

	MATTER	COMMENT
1	We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	We are satisfied that the other information in the Statement of Accounts is consistent with the financial statements and our knowledge.
2	We are required to report by exception if the Annual Governance Statement is misleading or inconsistent with other information that is forthcoming from the audit.	We have no matters to report.

CONTROL ENVIRONMENT

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Audit Committee.

As the purpose of the audit is for us to express an opinion on the Council's financial statements and use of resources, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

We note that the Council's internal audit function has issued a number of observations and recommendations on the Council's control environment during 2017/18. We have not repeated these recommendations in this report unless we consider them to highlight significant deficiencies in control which we are required to report to you.

We are not aware of any significant deficiencies in the Council's internal controls in 2017/18.

We have identified other deficiencies in controls which have been discussed with management and included in the action plan at Appendix II.

WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

	MATTER	COMMENT
1	Auditors are required to review Whole of Government Accounts (WGA) information prepared by component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure. The Council falls below the threshold for review and there is no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure.	Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 14 June 2018. The Council did not meet this deadline but was granted an extension. We will submit the relevant section of the assurance statement to the National Audit Office (NAO).

USE OF RESOURCES

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) and report to you on an 'except for' basis. This is based on the following reporting criterion:

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

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

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties.

AUDIT RISKS

We have assessed the following as audit risks from our audit planning. We set out how these risks have been addressed and the outcomes of our work.

Key: ■ Significant risk

RISK AREA		RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
1	**Sustainable finances**	The Council set a balanced budget for 2017/18 using £0.6 million support from reserves, but with unfunded shortfalls in the medium term. The MTFS reflect further reductions in Government support and requires support from reserves in each year to deliver a balanced budget. While the Council holds significant reserves to support the budget shortfalls in the coming years, it is clear that there is a significant challenge to close the funding gap in the medium term. (continued)	The original budget included £1.496 million of planned draw from reserves although only £0.6 million was required to support revenue costs. The revised budget increased the draw from reserves with £2.615 million required to support revenue costs. The outturn for the year reduced the revenue support from reserves to only £1.003 million as a result of underspends across a number of services. The main areas of underspend were due to increased grants income, disabled facilities spend and a one-off reduction in the housing benefit costs from a reduction in the overpayments provision for non-recovery of arrears. Overspends were reported in relation to the pier closure legal costs and compensation claim.

USE OF RESOURCES

RISK AREA		RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
1	Sustainable finances	We have: • Reviewed the assumptions used in the MTFS and assess the reasonableness of the cost pressures and future income levels which have been forecast.	The key assumptions used in the MTFS were found to be reasonable. The 2018/19 and 2019/20 budgets reflect further reductions in Government support and requires £1 million from reserves in each year to deliver a balanced budget. In the medium term, there are budget shortfalls of £1.9 million in 2020/21 and £2.4 million in 2021/22 that will need to be addressed. The Council has planned for significant capital investment in commercial ventures, setting aside £20 million in 2018/19 to be funded from borrowing, with outline headroom to spend up to £50 million on commercial property, housing and energy schemes. This builds on recent commercial property acquisitions to support income growth in the budget.
		• We reviewed the current savings and the budgeted savings together with their plans to assess their reasonability.	The PIER programme delivered £0.7 million of savings in 2017/18 against the original budget of £0.7 million. The savings required in the three years from 2018/19 are £0.5 million, £0.9 million and £1.2 million. Management will need to ensure the budgeted savings are delivered in the coming years. The Council holds significant reserves to support the budget shortfalls in the coming years although there remains a challenge to close the funding gap in the medium term. While there is a recognised funding gap in the MTFS, we are satisfied that the Council has appropriate arrangements to continue to remain financially sustainable over the period of the MTFS.

APPENDICES

APPENDIX I: AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Audit Committee is required to consider. This includes: audit differences that have been corrected by management; and those that remain uncorrected along with the effect that they have individually, and in aggregate, on the financial statements.

ADJUSTED AUDIT DIFFERENCES

Our audit identified no material misstatements that resulted in adjustment to the deficit on provision of services.

However, we found one material misstatement in respect of the disclosure for future minimum lease payments receivable on operating leases due to an error in the formula in the spreadsheet that resulted in an increase in future payments receivable of £7 million. This has been corrected by management.

There is a number of immaterial audit differences identified by our audit work that are being adjusted by management.

UNADJUSTED AUDIT DIFFERENCES

Our audit identified two errors above our reporting threshold that would reduce the deficit for the year by £39,000.

APPENDIX I: AUDIT DIFFERENCES

		INCOME AND EXPENDITURE		BALANCE SHHET	
		DR	CR	DR	CR
	£'000	£'000	£'000	£'000	£'000
Deficit on provision of services before adjustments	2,214				
DR Property, Plant and Equipment				103	
CR Revaluation Reserve					(103)
(1) Estimate of potential understatement of PPE valuation					
DR Creditors				39	
CR Housing benefits subsidy income	(39)		(39)		
(2) Estimate of additional income due as a result of testing of benefit cases and submission to DWP					
TOTAL UNADJUSTED AUDIT DIFFERENCES	(39)	0	(39)	142	(103)
Deficit on provision of services if adjustments accounted for	2,175				

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

Key: ■ Other deficiency in internal control

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
STATEMENT OF ACCOUNTS AND FINANCIAL STATEMENTS					
Fees and charges	Our testing identified items of grant income, which were incorrectly classified as fees and charges in the general ledger.	We recommend that postings to the general ledger should be reviewed by the Chief Accountant on a regular basis to confirm correct classification.	Agreed	S. Jones	Quarterly review to be undertaken
Future minimum lease payments receivable	Our audit has identified an issue with errors on the formulas used to calculate the future minimum lease payment receivable on operating leases which has resulted in a material misstatement on the disclosure note for leases.	We recommend that a review of the future minimum lease payments receivable spreadsheet needs to be performed by the Chief Accountant and the formulas used needs to locked and protected on the schedule to avoid being changed.	This has now been actioned. Review by Chief Accountant undertaken and formulas locked.	S. Jones	Completed

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

We have followed up on the recommendations that we raised in the prior year:

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	PROGRESS
Variations to Pay Errors	During our testing of overtime and variable hours claim forms, we noted a few cases where small arithmetic errors in completed forms were unnoticed by managers. This can lead to both under and overpayments to employees, and an unnecessary cost to the council This issue was also identified in Internal Audits testing.	We recommend that a secondary check of claim forms is performed either by line managers or by the payroll department before overtime forms are processed.	Agreed	V. Connolly	Payroll carry out a secondary check and will correct and make adjustments. Payroll asked for an extra step to be included in the new ERP system so any claims that are calculated incorrectly can be rejected and returned to the employee for correction.
Retrospective Purchase Orders	Our testing of purchasing controls identified instances where a purchase order was raised in Agresso subsequent to a service being provided to the Council and an invoice being received. Similar cases have been identified by internal audit in the current and prior years. Failure to obtain authorisation prior to orders being placed with the supplier introduces a risk that the Council may be exposed to inappropriate or inefficient expenditure, and reduces the effectiveness of the procurement and three-way matching controls in place.	We are aware that employees are regularly reminded of the need to follow procurement procedures, but that there is currently no system enforced restriction to stop this happening. It is expected that the raising retrospective purchase orders will not be possible in the new system We recommend that management takes action to ensure that all officers are aware of the requirement to obtain authorisation for purchase requisitions prior to orders being placed, and ensures that controls are put in place when the new accounting system is installed.	Agreed	A. Mitchell	Regular reminders to officers continued to be made. Financial Operating Procedures detail the correct process to follow. We are investigating the possibility of producing a report within the new system that details all invoices dated prior to purchase orders being raised so that officers not following the procedure can be identified and trained in the correct procedure. Refresher training will be provided and procedure detailed in the new ERP system procedure notes that are due to be written.

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	PROGRESS
Supplier Bank Details Changes	There are still no formal controls in place around changes to supplier bank details. This increases the risk that the Council could fall victim to internal or external fraud.	We recommend that management put into place a formal control mechanism as soon as possible, a system enforced requirement to require authorisation of changes to bank details will lead to a stronger control. We are aware that the creditor's team are currently working with Internal audit to create a procedure and a form. In the new ERP this form should be system generated and authorisation required in line with the system enforced workflow	The Council is working to document existing good practice	S. Conway	Process in new ERP system is part of phase 2 and is yet to be developed and implemented. Suppliers are requested to go through council officer contact when requesting a change. When notified of a change of bank details the Creditors team phone supplier to gain separate confirmation of new account details.
Priority Income and Efficiency Review (PIER) Process	Although PIER savings are planned in detail within the council's annual budget reports, and savings identified in the PIER process are removed from budgets once they have been approved by Cabinet, there is still no formal reporting back to management or Cabinet as to the actual savings achieved compared to the original expectation set for each of the named schemes. This could potentially limit the effectiveness of the process.	We recommend that management considers putting into place a formal process for identifying and reporting actual savings achieved against each PIER scheme following their implementation.	To include in year-end report to Cabinet	P. Grace	Achievement of 2017-18 PIER savings reported to Cabinet on 2nd July 2018 as part of Final Accounts 2017-18 report

APPENDIX III: MATERIALITY

MATERIALITY - FINAL AND PLANNING		
	FINAL	PLANNING
Materiality	£1,680,000	£1,780,000
Clearly trivial threshold	£34,000	£35,000

Planning materiality of £1,780,000 was based on 2% of the prior year gross expenditure.
We revised our materiality to reflect amounts in the current year draft financial statements

APPENDIX IV: INDEPENDENCE

Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement leads are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2018.

We provided no non-audit services to the Council during the period and up to the date of this report.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Plan.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council.

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

APPENDIX V: FEES SCHEDULE

	2017/18 FINAL	2017/18 PLANNED	2016//17 FINAL	
	£	£	£	EXPLANATION FOR VARIANCES
Code audit fee	46,418	46,418	46,418	N/A
Fee for reporting on the housing benefits subsidy claim	8,844	8,844	12,531	N/A
TOTAL AUDIT AND CERTIFICATION FEES	55,262	55,262	58,949	
Fees for other non-audit services	-	-	-	N/A
TOTAL ASSURANCE SERVICES	55,262	55,262	58,949	

APPENDIX VI: DRAFT LETTER OF REPRESENTATION

TO BE TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP
55 Baker Street
London
WIU 7EU

31 July 2018

Dear Sirs

Financial statements of Hastings Borough Council for the year ended 31 March 2018

We confirm that the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2018 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Chief Finance Officer has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and Statement of Responsibilities of Auditors and Audited Bodies within Chapter 2 of the Code of Audit Practice published by the National Audit Office in April 2015, and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2018 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and other meetings have been made available to you.

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

We have no plans or intentions that may materially affect the carrying value and where relevant, the fair value measurement, or classification of assets or liabilities reflected in the financial statements.

We confirm the following significant assumptions made in relation to accounting estimates (including fair value measurements) used in the preparation of the financial statements:

a) Pension fund assumptions

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

- Rate of increase in salaries: 2.8%
- Rate of increase in pensions: 2.4%
- Rate for discounting scheme liabilities: 2.6%
- Longevity at 65 for current pensioners: 22.1 years (men) and 24.4 years (women)
- Longevity at 65 for future pensioners: 23.8 years (men) and 26.3 years (women)

b) Valuation of land, buildings, heritage assets and investment properties

We are satisfied that the useful economic lives of land and buildings, and their constituent components, used in the valuation and the calculation of the depreciation charge for the year, are reasonable.

We confirm that the valuations applied to land and buildings revalued in the year, as provided by the valuer and accounted for in the financial statements, are reasonable and consistent with our knowledge of the business and current market prices.

We are satisfied that heritage assets have been appropriately valued.

We are satisfied that investment properties have been appropriately assessed on the fair value hierarchy for valuation purposes and valued at fair value, based on highest and best use.

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

We have disclosed all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed in accordance with the requirements of accounting standards.

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. The Chief Finance Officer and each member has taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Peter Grace
Chief Finance Officer
31 July 2018

Councillor John Rankin
Audit Committee Chair
Signed on behalf of the Audit Committee
31 July 2018

APPENDIX VII: AUDIT QUALITY

BDO is totally committed to audit quality

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

BDO welcomes feedback from external bodies and is committed to implementing all necessary actions to address their findings.

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

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at www.bdo.co.uk

FOR MORE INFORMATION:

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