

# The Audit Findings for Hastings Borough Council

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Year ended 31 March 2019

Updated to September 2019



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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 for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Hastings Borough Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2019 for those charged with governance.

<b>Financial Statements</b>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and</li><li>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li></ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p><b>Our audit work was completed on site during June and July. As reported to you in July there was outstanding work at the 31 July 2019 which prevented us from signing our opinion, and therefore work continued into August and September. Our work is now complete, and this has resulted in additional findings and audit adjustments which have been included in this findings report for your information. Our findings are summarised on pages 6 to 14. We have identified a number of audit adjustments to the financial statements which are detailed in Appendix B to this report. We have also raised recommendations for management as a result of our audit work in Appendix A.</b></p> <p><b>The most significant issue is a material adjustment to the value of the net pension liability which is documented on pages 8 and 9. Note that this was included in the accounts which were presented to you on the 30 July 2019, but the audit adjustment had not yet been included in our Audit Findings Report due to the deadline for papers falling before we had finalised agreement with the finance team on this adjustment. Therefore, you have already sighted accounts including the adjusted net pension liability, and the details of the adjustment are included in this report for information.</b></p> <p><b>The draft accounts presented to us for audit reported a surplus on provision of services of £2,389k, and after audit adjustments the surplus on provision of services was adjusted to £3,080k. See Appendix B for the adjustments that have impacted the surplus on provision of services.</b></p>
<b>Value for Money arrangements</b>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 17 to 21.</p>

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# Headlines (continued)

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## Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- To certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We have completed all of our work under the Code and we are able to certify the completion of the audit when we give our audit opinion.

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## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

# Summary

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Audit approach

Our audit approach was based on a thorough understanding of your business and is risk based, and in particular included:

- An evaluation of your internal controls environment, including its IT systems and controls;

- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have not had to alter or change our audit plan, as communicated to you in March 2019.

## Conclusion

We have completed our audit of your financial statements and we intend to issue an unqualified audit opinion as detailed in Appendix D.

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

On receipt of the draft accounts, as the gross expenditure in 2018/19 had reduced by a relatively significant margin compared to the prior year expenditure on which we had based the planning materiality, we accordingly revised our materiality downwards for the audit.

	Council Amount (£)	Group Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,436,000	1,436,264	We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year.
Performance materiality	1,005,200	1,005,372	The maximum amount of misstatement the audit team could accept in an individual account or group of related accounts. This is less than materiality due to "aggregation risk".
Trivial matters	71,800	71,812	We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance

# Audit findings – significant risks

## Risks identified in our Audit Plan

1

### Improper revenue recognition

We have considered the rebuttable presumed risk under ISA (UK) 240 that revenue may be misstated due to the improper recognition of revenue.

We have rebutted this presumed risk for revenue streams that are derived from Council Tax, Business Rates and Grants on the basis that they are income streams primarily derived from grants or formula based income from central government and tax payers and that opportunities to manipulate the recognition of these income streams is very limited.

We have not deemed it appropriate to rebut this presumed risk for fees, charges and other service income as we do not have cumulative audit testing knowledge of these revenues being your new auditor, and the adoption of IFRS15 Revenue from Contracts with Customers could materially affect recognition of this income.

We therefore identified the occurrence and accuracy of these income streams and the existence of associated receivable balances as a significant risk of material misstatement.

2

### Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

## Commentary

### Auditor commentary

For all material income streams where we have not rebutted the presumed risk of revenue recognition we have:

- evaluated your accounting policy for recognition of income for appropriateness and compliance with LG Code of Practice;
- updated our understanding of your system for accounting for income and evaluated the design of the associated controls;
- reviewed and sample tested income to supporting evidence;
- evaluate and challenge significant estimates and the judgments made by management, including those around the adoption of the new IFRS15.

**Our audit work has not identified any issues in respect of revenue recognition.**

### Auditor commentary

We have:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determined the criteria for selecting high risk unusual journals;
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;
- gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence;
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

**Our audit work has not identified any issues in respect of management override of controls.**

# Audit findings – significant risks

## Risks identified in our Audit Plan

## Commentary

3

### Valuation of land and buildings

The Council revalues its land and buildings on a five-yearly rolling basis to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for investment properties and surplus assets) at the financial statements date. This valuation is carried out by the Council's internal valuers, professional valuers and independent property managing consultants contracted by the Council. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

Additionally, management need to ensure the carrying value in the Council financial statements is not materially different from the current value or the fair value (for investment properties and surplus assets) at the financial statements date, where a rolling programme is used.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

### Valuation of Heritage Assets

Heritage assets were held at £15m at the 31 March 2018 balance sheet date. The Authority revalues heritage assets periodically based on market value as approximated by their insurance value. The insurance values are reviewed annually to ensure there have been no material changes, and where there are other indications of impairment their carrying amount will be reviewed.

The valuations of heritage assets, particularly revaluations and impairments, is also a significant risk.

The risk of misstatement in the valuations of land, buildings and heritage assets was one of the most significant assessed risks of material misstatements, and a key audit matter.

### Auditor commentary

#### We have for land and buildings:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- wrote to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- assessed how management have challenged the valuations produced internally, by professional valuers and by independent property managing consultants to assure themselves that these represent the materially correct current value;
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register;
- evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.

During the year, £39.5 million of assets were revalued representing 34% of land and buildings held on the balance sheet at current or fair value. The remaining £75.6 million of assets held at current value were revalued in earlier years or acquired in the year. The Code of Practice allows a rolling programme of revaluation over a short period, but does place a requirement on management to consider and ensure that assets not revalued in year are not materially misstated.

Management did not prepare a working paper to address whether assets had been impaired during the year, and also did not specifically set out in detail their own assumptions and estimates of the potential movements in value for assets not revalued during the year. Although management do revalue all very high value assets the total of assets not revalued is a very material amount and a relatively small movement in the value of this total could be material to the accounts.

In the absence of a detailed management working paper, we have developed our own point estimate of the movement in values using information of possible variations provided by our own auditor's expert, and we made further inquiries to the management's professional valuers. Through this work we were able to gain assurance that assets not revalued in the year are not materially misstated. We have recommended that management strengthen future working papers in this area to provide a detailed assessment that can be audited. See Appendix A.

Other audit work carried out around the assets revalued has not identified any further issues.

**Heritage Assets:** these assets are not required to be revalued annually, but should be reviewed sufficiently regularly to ensure that valuations remain current. We reviewed the insurance valuations which are used as the basis for the estimation of the market value of heritage assets, and we challenged the basis of and assumptions underlying the valuation method for reasonableness. Our working around heritage assets has not identified any issues.

# Audit findings – significant risks

## Risks identified in our Audit Plan

## Commentary

4

### Valuation of pension fund net liability

The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£41.6 million in the Council's unaudited balance sheet at the 31 March 2019, adjusted to £46 million after audit adjustments) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

### Auditor commentary

Our work included:

- documenting our understanding of the process and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluating the design of the associated controls;
- liaising with the auditors of East Sussex Pension Fund to evaluate the instructions and accuracy/completeness of information issued by the Pension Fund to their management expert (actuary – Hymans Robertson) for this estimate and the scope of the actuary's work;
- assessing the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation;
- testing the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertaking procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing additional focussed audit procedures suggested within the report; and
- obtaining assurances from the auditor of East Sussex Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

We report our findings of the assessment of the actuary and on our work around the financial assumptions used by the actuary on the key judgements and estimates page 11.

During the year two legal cases were heard impacting on pensions and their accounting. The McCloud case relates to the Court of Appeal ruling that there was age discrimination in certain public sector pension schemes where there were transitional protections given to scheme members. Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies. The GMP case relates to the High Court ruling that GMPs must be equalised between men and women and that past underpayments must be corrected.

Your actuary assessed the impact of the GMP matter as immaterial in its year end reporting to the Council, and our own estimate based on applying information provided by our auditor's consulting actuary to estimate the GMP potential liability to a reasonable degree of accuracy also concluded that it was immaterial and did not need to be provided for.

Management requested an estimate from the actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £569k, and an increase in service costs for the 2019/20 year of £67k. This was originally included in the accounts as a contingent liability. Our view is that the McCloud case gives rise to a past service cost and liability within the scope of IAS 19 as the ruling creates a new obligation which should be accurately estimated and either included in the accounts if material, or disclosed clearly if immaterial. We reviewed the analysis performed by the actuary, and considered the estimate of the McCloud liability to be reasonable.

(continued below)



# Audit findings – significant risks

## Risks identified in our Audit Plan

## Commentary

4

### Valuation of pension fund net liability (continued)

### Auditor commentary (continued)

Our work on the net pension liability included analytical testing of the reasonableness of the Council's share of assets and liabilities, and the actuarial application of the roll forward approach in estimating the value of the net pension liability. Our analytics suggested there could be a material error in the actuary's estimate of the Council's share of assets. At the time we reported to the Committee in July, we were awaiting a response from the Council's actuary to our enquiries.

In order to provide an actuarial estimate quickly for inclusion in the financial statements the actuary uses an estimated return on pension fund assets as at the financial year end. The actuary estimated a 10.6% return. The actual year end return on assets was 7.3%. As our audit work implied, this resulted in a material error for the draft accounts presented to the Committee.

Your finance team requested that the actuary produce an updated actuarial estimate to include the actual year end return on pension fund assets. The revised actuary report also included the additional liability for the impact of the McCloud ruling mentioned above and as reported in our previous audit findings report.

These two issues meant the estimate of the net pension fund liability increased by £4.4m, which increases the Council's Cost of Services by £548k, and increases Other Comprehensive Income and Expenditure by £3.9m. Note due to adjustments between the accounting and funding basis under regulations this does not impact on the closing General Fund balance. As this was material to the audit we agreed with management that this should be adjusted in the financial statements. This adjustment is shown in Appendix B.

The adjustment also impacts on the Movement in Reserves Statement, Adjustments between the Accounting Basis and Funding Basis under Regulations, the Expenditure and Funding Analysis, the Housing Revenue Accounts Income and Expenditure Statement, the Cash Flow Statement, the Narrative Report and Notes 3/6/17/23 to the accounts where the adjustment has feed-through impact. We have checked that the adjustment has been accurately reflected in these Statements and Notes to the accounts.

# Audit findings – other risks

## Risks identified in our Audit Plan

5

### Migration of ERP system

During the 2018-19 accounting year management have undertaken a data migration from the previous Agresso enterprise resource planning (ERP) system to the new system Unit 4 Business World On ERP system.

The migration took place at the beginning of April 2018. We regarded this as a risk of material misstatement in the accounts as our experience of these types of system migrations has shown that the risk of error in data migration, either via system incompatibilities or via human error is high.

## Commentary

### Auditor commentary

We have:

- documented our understanding of and walkthrough the process for the system migration;
- reconciled the opening trial balance report from Agresso ERP to the opening balance on Unit 4 Business World On ERP and to the signed accounts to demonstrate the brought forward transactions and balances were equivalent and the same as the audited prior year closing position indicating the correct opening balances;
- carried out testing to gain comfort over the correct transfer of historic data.

The working papers provided as evidence for the correct migration of the system were of a poor quality. This meant our testing of the migration took much more time for the audit team than we would have anticipated.

We also found errors in the transition where items were misposted between codes, or were posted onto the old system after the new system had been adopted. These errors were later corrected, but again these issues made it more difficult for us to complete this work and gain sufficient assurance over the material correctness of the migration.

We have recommended that where system migrations take place in the future, for finance or other systems, that management strengthen working papers to provide internal assurance around the completeness and accuracy of the migration and for audit purposes. See Appendix A.

We were satisfied that the system migration had not resulted in misstatement of the accounts.

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### Group Accounts preparation

A wholly owned subsidiary Hastings Housing Company Ltd. has in 2018/19 been consolidated into group accounts, based on it becoming material to the accounts during the year.

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

We have:

- reviewed and tested in detail the financials of the subsidiary and the accounting entries made to consolidate these into the group accounts to gain assurance over the correct accounting treatment;
- carried out further audit testing procedures to gain assurance over the material subsidiary balances which were consolidated into the group accounts.

Our audit work has not identified any issues in respect of the group accounts preparation.



# Audit findings – key judgements and estimates

Summary of management’s policy	Audit Comments	Assessment																								
<p><b>Net pension liability – £41.6m</b></p> <p>You recognise and disclose your retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 ‘Employee Benefits’.</p> <p>Your net pension liability in the unaudited draft accounts 31 March 2019 was £41.6m (2018: 40.4m) and after audit adjustments this was adjusted to £46m. You engage Hymans Robertson LLP to provide actuarial valuations of your assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p>	<ul style="list-style-type: none"> <li>management’s actuarial expert was clearly competent, capable and objective;</li> <li>we have used the work and report of a consulting actuary (as auditor’s expert) to consider whether the actuarial method of calculating the estimate, including the roll forward approach, is reasonable. We highlighted one issue with the application of the roll forward approach and this is documented on pages 8 and 9;</li> <li><b>we carried out analytical procedures to conclude on whether the Council’s share of LGPS pension assets and liabilities was reasonable and this resulted in highlighting a material difference in the estimated return on pension fund assets as at the financial year end used by the actuary to provide an early estimate for inclusion in the accounts, and the actual return. Once the actual return was included this resulted in a material adjustment to the net pension liability as documented on pages 8 and 9;</b></li> <li>the information used by the actuary was complete and accurate;</li> <li>the auditors’ expert has also assessed the assumptions made by your actuary providing the auditor with indicative ranges for assumptions. Where the actuary has applied a different assumption for the Council estimate we have challenged the reasoning behind this:</li> </ul> <table border="1" data-bbox="679 711 1815 1136"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>Auditor’s expert range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.4%</td> <td>2.4-2.5%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.5%</td> <td>2.4-2.5%</td> <td>●</td> </tr> <tr> <td>RPI</td> <td>3.4%</td> <td>3.4-3.5%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 65 / 45</td> <td>22.1/23.8</td> <td>21.5-22.8/ 23.7-24.4</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 65 / 45</td> <td>24.4/26.3</td> <td>24.1-25.1/ 26.2-26.9</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>the disclosure of the estimate in the financial statements was considered adequate;</li> </ul>	Assumption	Actuary Value	Auditor’s expert range	Assessment	Discount rate	2.4%	2.4-2.5%	●	Pension increase rate	2.5%	2.4-2.5%	●	RPI	3.4%	3.4-3.5%	●	Life expectancy – Males currently aged 65 / 45	22.1/23.8	21.5-22.8/ 23.7-24.4	●	Life expectancy – Females currently aged 65 / 45	24.4/26.3	24.1-25.1/ 26.2-26.9	●	<p>●</p>
Assumption	Actuary Value	Auditor’s expert range	Assessment																							
Discount rate	2.4%	2.4-2.5%	●																							
Pension increase rate	2.5%	2.4-2.5%	●																							
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Life expectancy – Males currently aged 65 / 45	22.1/23.8	21.5-22.8/ 23.7-24.4	●																							
Life expectancy – Females currently aged 65 / 45	24.4/26.3	24.1-25.1/ 26.2-26.9	●																							





**Assessment**

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- We consider management’s process is appropriate and key assumptions are neither optimistic or cautious


# Audit findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
<b>Going concern</b>	Your accounts have been prepared on the going concern basis. Public sector bodies are assumed to be going concerns where the continuation of the provision of a service in the future is anticipated, as evidenced by inclusion of financial provision for that service in published documents.	<p>As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).</p> <p>We have subjected the 2019/20 budget and Medium Term Financial Strategy (MTFS) to 2023/24 to detailed scrutiny, and reviewed the planned PIER savings proposals for 2019/20 in our consideration of the appropriateness of management's use of the going concern assumption. We have also taken into account your strong cash and net assets position.</p> <p>In 2019/20 you have sufficient available usable reserves to close the anticipated budget gap. We have carried out work on your financial sustainability (see value for money work) and concluded your financial planning is robust and your current reserves position provides an appropriate level of flexibility.</p> <p>We have not identified any material uncertainty in relation to your ability to continue as a going concern.</p>	
<b>The Foreshore Charitable Trust</b>	Although the Council is the sole trustee of the charitable trust, it is not consolidated into the group accounts. This is because a management critical judgement is that the scheme is so constituted as to prevent the Council from obtaining any benefit from the Trust's activities.	<p>We have discussed this critical judgement with management, and obtained a more detailed commentary on the constitution of the charitable fund.</p> <p>We have reviewed the constitution of the charitable fund to confirm the basis of management's critical judgement and the way Council Committees have been structured so that the Council does not control the charitable Trust.</p> <p>We were satisfied that this critical judgement was reasonable.</p>	

## Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Audit findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
<b>Provisions for receivable</b>	<p>The Council makes allowance for the non-recoverability 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 experience across the sector.</p> <p><b>Housing benefit overpayments:</b> a provision of 50% based on a recoverability analysis.</p> <p><b>Trade receivables general bad debt provision:</b> the Council has provided for specific debt known to be unrecoverable, and 50% provision for balances older than 90 days. This excludes all other local authorities and public bodies. 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.</p> <p><b>NNDR appeals provision:</b> the basis of the NNDR provision is a 4.7% provision for all NNDR still outstanding from 18/19 and a 100% provision for balances due from before 2011.</p> <p><b>Council Tax arrears provision:</b> The council tax provision is a 2.8% provision for all council tax still outstanding from 18/19 and a 100% provision for balances due from before 2008/09.</p>	<p>We reviewed the reasonableness of the recoverability analysis and we were satisfied that a provision of 50% was reasonable.</p> <p>We reviewed the ageing of debt and the variance in trade receivables year on year to conclude on the reasonableness of this provision. The exclusion from the provision of all other local authorities and public bodies is considered reasonable as from prior experience these bodies are often slow to pay each other but the debt is recoverable over time.</p> <p>We have reviewed the basis of this provision and consider this to be reasonable based on the assumptions underlying the provision and previous success rates.</p> <p>We have reviewed the basis of this provision and consider this to be reasonable based on prior year collection rates and also the prior year provision rates.</p>	

## Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Audit findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view
<p>1 <b>Supporting working papers to the accounts preparation and availability of key finance contacts</b></p>	<p>During the audit we found that there were not clear working papers to support each note in the accounts, and that sub-systems through which significant volumes of transactions in the accounts are recorded, such as Council Tax and Business Rates income and Housing Benefits expenditure, were not supported by clear reconciliations to provide assurance of the completeness and accuracy of accounting in the general ledger for transactions in these sub-systems.</p> <p>These issues, along with difficulty in closing down testing queries as highlighted in this report, have meant that the on site fieldwork has taken longer than planned and as at the date of writing the report there were areas of work still outstanding. This was exacerbated by some periods of unavailability of key finance contacts who had put together the accounts.</p>	<p>We have recommended that management strengthen future working papers for their own internal assurance, and to support a more efficient audit. See Appendix A.</p> <p><b>Management response</b> See Appendix A.</p>
<p>2 <b>Errors within debtors balances</b></p>	<p>In our sample testing of debtors we found a significant number of small errors. Some of these were in housing benefit overpayments debtors where it appeared that some historic balances which had already been paid were still being included as debtor assets in the accounts. As at the date of writing this report an analysis had been made by management to suggest the error was limited in extent to a maximum of £160k but subsequently issues with this analysis have been found to suggest that the error could be larger.</p> <p>There were also further small errors around the cut off recognition of debtor accruals at year end.</p>	<p><b>Auditor view</b> We have recommended that management strengthen debtor reconciliation controls and introduce a review of the accrual process either to introduce a reasonable de-minimus for making accruals or to ensure all accruals are correct through tightening review of cut off processes. See Appendix A.</p> <p><b>Management response</b> See Appendix A.</p>
<p>3 <b>Unpaid leave accrual</b></p>	<p>Management have made a judgement that as this accrual is not material to the accounts they will not include this in the statutory accounts.</p> <p>This is an additional liability for the Council at the 31 March 2019 .We have reviewed data provided by management to support the view that the accrual would be immaterial. As the amount is above the trivial threshold for the audit we are required to report this as an unadjusted audit misstatement to those charged with governance.</p>	<p><b>Auditor view</b> We have included an unadjusted misstatement in Appendix B.</p> <p><b>Management response</b> See Appendix A.</p>

# Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
① <b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with management and the Audit Committee. We have not been made aware of any significant incidents in the period and no issues have been identified during the course of our audit procedures.</li> </ul>
② <b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related parties or related party transactions which have not been disclosed.</li> </ul>
③ <b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any such incidences from our audit work.</li> </ul>
④ <b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested.</li> </ul>
⑤ <b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send confirmation requests in respect of your bank, investments and loans balances. This permission was granted for all institutions and the requests were sent. All of these requests were returned with positive confirmation.</li> </ul>
⑥ <b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in your financial statements. We identified a number of immaterial disclosure adjustments which are set out later within this report.</li> <li>Note 4 to the accounts sets out the key areas of estimation made by management. Expected practice is that a sensitivity analysis is provided for each key estimation to inform the reader of the impact of any change in the assumptions made in arriving at the estimate. The Council does not do this for all of the disclosed key estimates and this should be considered for the future.</li> </ul>
⑦ <b>Audit evidence and explanations/significant difficulties</b>	<ul style="list-style-type: none"> <li>Except for the outstanding items noted on page 3, all information and explanations requested from management was provided.</li> </ul>

# Other responsibilities under the Code

Issue	Commentary
<p>1 <b>Other information</b></p>	<ul style="list-style-type: none"> <li>We are required to give an opinion on whether the other information published together with your audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</li> </ul> <p>The narrative report is balanced and largely covers the expected content as per the Code of Practice. No inconsistencies have been identified.</p> <p>We highlighted one improvement area for management's future consideration in respect of the AGS. Many councils highlight specifically how their control environment addresses the 7 criteria under the 2016 Code to transparently demonstrate the completeness of their control environment.</p> <p>We plan to issue an unmodified opinion in this respect – refer to Appendix D.</p>
<p>2 <b>Matters on which we report by exception</b></p>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>If we have applied any of our statutory powers or duties</li> </ul> <p>We are still completing our work in this area, but to date we have nothing to report on these matters.</p>
<p>3 <b>Specified procedures for Whole of Government Accounts</b></p>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <ul style="list-style-type: none"> <li>Note that work is not required as the Council does not exceed the threshold;</li> </ul>
<p>4 <b>Certification of the closure of the audit</b></p>	<p>We intend to certify the closure of the 2018/19 audit of <b>the Council</b> in the audit opinion, as detailed in Appendix D.</p>



# Value for Money

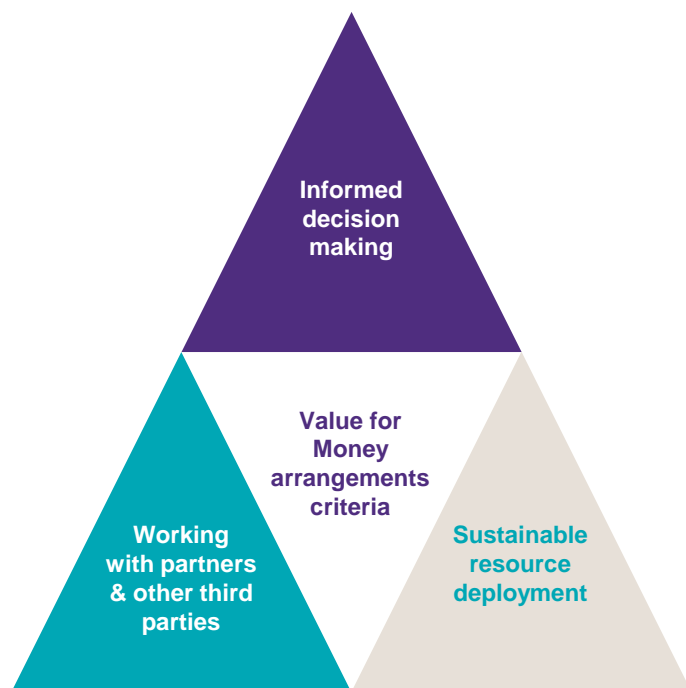
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

*"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."*

This is supported by three sub-criteria, as set out below:



## Risk assessment

We carried out an initial risk assessment in February 2019 and identified three significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 12 March 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

## Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

1. Performance in the current 2018/19 year, the reforecast budget, reasons for in-year variances, and how performance was reported.
2. The reasonableness of the process, method and assumptions underlying the setting out of your Medium Term Financial Strategy.
3. The considerations undertaken by management in setting the minimum level of reserves to hold.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 17-20.

In the 2018/19 financial year, your management have internally analysed reserve levels and risks using a range of CIPFA developed indicators, and have benchmarked the Council against other authorities. This was reported in the February 2019 budget report to members, and although the current level of reserves as a % of your net expenditure was 135%, by the end of the next financial year useable reserves are expected to decrease to around 91% of net expenditure, a level which will compare much less favourably to neighbouring districts. This may become a mandatory reporting requirement in the 2019/20 year onwards. We recommend that management keeps these indicators under close review and continues to report on these indicators annually to those charged with governance, regardless of whether they become mandatory reporting requirements.

## Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk as set out in the audit plan	Findings	Conclusion
<p><b>1 Medium term financial sustainability</b></p> <p>The Council had deficit results on its provision of services for the 2016/17 and 2017/18 years. These were relatively small deficits which could be alleviated through use of reserves. At 31 March 2018 the usable reserves stood at £21.7m, a level which is considered by the Council to be sufficient to ensure the ongoing sustainability of the organisation. You are responding to funding challenges in a variety of ways, through identifying efficiencies &amp; new sources of funding, working with partners, and engaging in service redesign.</p> <p>For the 2018/19 year, Council set a budget for a £1.7m deficit for the 2018/19 year, and the Medium Term Financial Strategy set out expectations of funding gaps of between £2-3m for each of the subsequent 3 years before use of reserves. There are savings and income generation plans in place which will mitigate some of the impact, but the expected results will entail significant use of the Council's current usable reserves which will be difficult to replenish. savings plans is inherently uncertain and risk and this could put overall budget achievement in doubt. There is currently no reasonable estimate that can be made for the impact of the 2020/21 Fair Funding Review and potential changes to Business Rate retention.</p> <p>For these reasons we cited medium term financial sustainability as a risk that the Council could fail to achieve Economy, Efficiency, and Effectiveness in use of its resources in 2018/19 and beyond.</p>	<p><b>Financial performance 2018/19</b></p> <p>During the 2018/19 year the Council set a revised budget in early February 2019 to acknowledge and plan for the additional spending pressures being experienced at that point in the year. The Council, like most others, has experienced a significant increase in pressure on demand led budgets, and at the year end the Council delivered a General Fund outturn deficit of £681k, a positive variance against the revised budget of £747k. You continue to use the transition reserve (£481k in 2018/19) which was funded by an Efficiency Grant from government, and put in place to address the particularly challenging balance between reductions in income, and increase in demand for services, while the Council makes the transition to embedding properly recurring savings and generating more income locally to fund services.</p> <p>The capital programme continued to schedule behind plan, by £2,065k in 2018/19. This is in part due to continued underspends against grants given for Disabled Facilities and improvements to the Harbour Arm and New Groyne.</p> <p>In the year the Council has slightly increased its usable reserves (across General Reserve and Earmarked Reserves) by about £650k.</p> <p>Priority Income and Efficiency Review (PIER) savings schemes in the year have under achieved by £161k against a budgeted savings total of £703k, including the expected contribution from the Hastings Housing Company, and increased income from investment in energy projects not yet delivering. Expenditure on temporary accommodation for the homeless also continued to outstrip expectations in 2018/19 by £90k. These pressures demonstrate the scale of the challenge to deliver PIER savings to address budget gaps going forwards.</p> <p>Our discussions with management and review of the final outturn report as issued to Cabinet indicates that overspends leading to the revised budget are largely structural local market issues indicating a permanent increase in costs or demand which will likely continue in coming years.</p> <p><b>Particularly in the context of having re-set the budget at quite a late stage in the current financial year, the Council will have to make sure that structural demand pressures manifesting as budget overspends, and PIER savings schemes which may not be achievable are adequately factored into the MTFS in future years as recurrent increases in costs, and reductions in anticipated savings/increases in service income. These will need to be mitigated through service transformation, or through the identification of alternative PIER efficiency savings.</b></p>	<p><b>Auditor view</b></p> <p>Through the work completed and our findings as documented adjacent we have concluded Hastings Borough Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p>

## Key findings

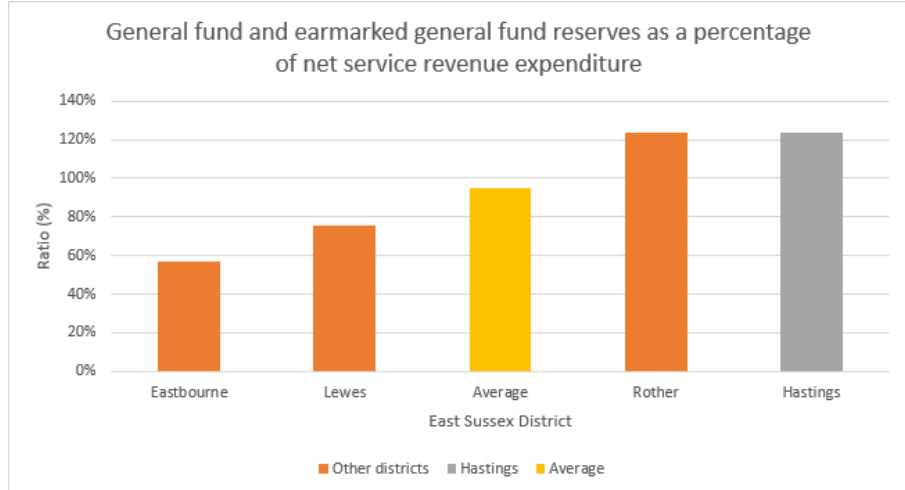
We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
1	<b>Medium term financial sustainability</b> (continued)	<p data-bbox="358 235 1017 264"><b>Financial planning (MTFS) 2019/20 to 2023/24</b></p> <p data-bbox="358 292 1707 349">For the 2019/20 year the Council has set a balanced budget, with a total service expenditure of £13.4m, and a contribution from reserves of £1.7m. Key components and assumptions to the budget year on year include:</p> <ul data-bbox="358 364 1742 571" style="list-style-type: none"> <li>- 2.99% increase on Council Tax</li> <li>- 2% salary inflation</li> <li>- Reductions in grant funding (some mitigated by compensatory government funding in the interim during transition) resulting in a reduction of £647k in year</li> <li>- £1.5m additional cost pressures due to bringing street cleaning in house and re-letting the waste contract</li> <li>- Net additional income generation of £713k</li> </ul> <p data-bbox="358 585 1777 721">The contribution from reserves closes the budget gap between net expenditure and available funding within the next 2018/19 year. PIER savings in the 2019/20 amount to £1.43m, and these should be viewed as relatively high risk given underachievement of PIER savings in 2018/19. Some of the 2019/20 PIER savings plans relate to service reviews and more impactful transformational plans (such as changes to the current recycling arrangements), and these have potential to realise greater levels of savings and achieve this target but also have attached risk due to the greater need for staff time and investment in recognising the savings fully.</p> <p data-bbox="358 763 1783 906">Your Medium Term Financial Strategy (MTFS) is the key financial planning document which sets out the financial implications of your corporate strategy over 5 years for the purposes of decision making and for you to provide assurance that you have a sustainable position in place to deliver service priorities and other investments in the local area. We have met with key members of your finance team to discuss and review the method for building the MTFS and in particular the robustness and realism underlying key assumptions, the Pier savings plans which are included and any areas where significant new/increased areas of revenue have been included.</p> <p data-bbox="358 921 1794 1149">The MTFS, much like the 2019/20 budget, starts from a baseline of the previous year budget adjusted for what is known in terms of cost and income variations from the actual outturn to set an "adjusted base" position. There is then an iterative process of layering on inflationary assumptions including staff pay increases, known and assumed increases in services pressures, reductions in grants and other revenues, any strategic driven spending commitments and plans which would drive revenue increases. Once this is complete, for this Council as we would expect from our experience across the Local Government sector, this leaves a Budget Gap between the expected expenditure required to maintain services and investment, and the resources expected to be available. For 2019/20 this Budget Gap has been closed by identified savings plans which management view as being achievable. However in the following three years there are predicted budget gaps of £2.436m in 2020/21, £1.791m in 2021/22 and £1.897k in 2022/23.</p> <p data-bbox="358 1178 1757 1346">The MTFS will be reviewed in September 2019/20 and alongside this the Council will be making substantial updates to the Capital Strategy. In our discussions with management we have been informed of forward looking development and regeneration plans that include potential leisure centre development, house building and development of greenfield sites. Management's aim is to have sufficient resources in place to increase affordable and flexible use housing in the district, and to improve amenities/facilities for residents, but this will be highly dependent on the success and return on planned PIER schemes. It is too early for us to conclude on this area, and we will therefore keep a watching brief here as we move into our value for money planning for 2019/20.</p>	See above

**Key findings**

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

1	Significant risk	Findings	Conclusion
	<b>Medium term financial sustainability</b> (continued)	<p><b>Fiscal Indicators and Reserves Levels</b></p> <p>Each year your management assess the level of reserves that they believe it is prudent for the Council to hold. Management base this on these following factors:</p> <ul style="list-style-type: none"> <li>(i) the cashflow working balance requirement;</li> <li>(ii) considerations of the level of available internal and external funds in the event of unexpected events or an emergency;</li> <li>(iii) The need to build up funds for known or potential liabilities (earmarked reserves);</li> <li>(iv) reserves put in place to assist in the transition to becoming a lower spending Council;</li> <li>(iii) having funds in place for investment.</li> </ul> <p>We compared your proportion of reserves and level of reserves to a set of other similar sized Councils. Your General Fund and Earmarked reserves total as a percentage of your net service revenue expenditure for the 2018/19 year is 124%. This compares favourably to other East Sussex and Kent districts with 4 Councils holding a higher percentage of reserves compared to net service revenue expenditure. The percentage for this indicator ranged from 27% to 267%. This demonstrates clearly there is no “correct” level of reserves to hold and it very much depends on local circumstances, risk analysis and risk appetite. We were satisfied that the considerations and assumptions that management have in place to monitor reserves levels at what they consider to be a safe level are reasonable and detailed. The review of the adequacy of reserves is presented to the Cabinet alongside the Budget and the MTFs each year.</p> <p>Your reserves total as a percentage of your net service revenue expenditure for the 2018/19 year by comparison to other East Sussex districts is shown below:</p>	See above



**Key findings**

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
<p><b>1 Medium term financial sustainability</b> (continued)</p>	<p>We also note that your management have internally analysed reserve levels and risks using a range of CIPFA developed indicators, and have benchmarked the Council against other authorities. This was reported in the February 2019 budget report to members, and although the current level of reserves as a % of your net expenditure was 135%, by the end of the next financial year useable reserves are expected to decrease to around 91% of net expenditure, a level which will compare much less favourably to neighbouring districts as per the analysis above (albeit still at the average level for 2018/19). This may become a mandatory reporting requirement in the 2019/20 year onwards, and we recommend that management keeps these indicators under close review and continues to report on these indicators annually to those charged with governance, regardless of whether they become mandatory reporting requirements.</p> <p>Based on 2017/18 reserves levels, your management’s analysis identified the level of reserves as being medium risk, and the reserves depletion time as being a higher risk level. This has not been benchmarked against national comparatives currently, so the risk level is only indicative, but it is an area of analysis that we would recommend your management keeps under close review and continues to report on annually to those charged with governance regardless of whether it becomes a mandatory reporting requirement.</p> <p>Our view was that management have given reasonable consideration as to whether the reserves provide a sufficient cushion to weather the on-going financial challenges that you face over the medium term due to reductions in central government funding and forecast increases in demand for your core services. However, you only have finite reserves available and it is important that you continue to maintain appropriate budgetary controls. The financial outlook for local government is at its most uncertain for a generation. It is key that members recognise the current level of reserves provide a buffer for the uncertainties ahead and do not represent an easy way to resolve immediate budget pressures.</p> <p><b>On the basis of this work, we have concluded that the risk is currently sufficiently mitigated and the Council has proper arrangements in place for securing value for money.</b></p>	<p>See above</p>

# Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

## **Audit and Non-audit services**

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. We have engaged with the Council to perform certification work for the housing benefit subsidy claim for the 2018/19 period. The agreed fee for this work is £10,500.

# Action plan

We have identified 5 recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
1	<p><b>Assurance over assets not revalued</b></p> <p>We noted in our PPE valuation work we noted that management had not specifically prepared a working paper to address whether assets had been impaired during the year, or set out in detail their own assumptions and estimates of the potential movements in value for assets not revalued during the year. Although management do revalue all very high value assets the total of assets not revalued represent a material amount and a relatively small movement in the value of this total could be material to the accounts.</p> <p>In the absence of a detailed management working paper , we developed our own point estimate of the movement in values using information of possible variations provided by our own auditor's expert.</p>	<p>We recommend that management strengthen future working papers in this area to provide a detailed assessment that can be audited.</p> <p><b>Management response</b></p> <p>Accepted.</p>
2	<p><b>Migration of ERP system</b></p> <p>The working papers which were made available to evidence the correct migration of the system were of a poor quality, which meant that understanding the testing the migration took a lot of time for our audit team.</p> <p>We also found errors in the transition where items were misposted between codes, or were posted onto the old system after the new system had been adopted. These errors were later corrected, but again these issues made it more difficult for us to complete this work and gain sufficient assurance over the material correctness of the migration.</p>	<p>We recommend that where system migrations take place in the future, for finance or other systems, management strengthen working papers to provide internal assurance around the completeness and accuracy of the migration, and for audit purposes.</p> <p><b>Management response</b></p> <p>Accepted.</p>
3	<p><b>Supporting working papers to the accounts preparation</b></p> <p>During the audit we found that there were not clear working papers to support each note in the accounts, and that sub-systems through which significant volume transactions in the accounts, such as Council Tax and Business Rates income and Housing Benefits expenditure, were not supported by clear reconciliations to provide assurance as the completeness and accuracy of accounting in the general ledger for transactions in these sub-systems.</p>	<p>We recommend that management strengthen future working papers for their own internal assurance, and to support a more efficient audit.</p> <p><b>Management response</b></p> <p>Accepted.</p>

## Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

# Action plan (continued)

Assessment	Issue and risk	Recommendations
4	<p><b>Review of debtors and creditors classifications</b></p> <p>We noted in our debtors and creditors review and testing that there had not been a full review of balances to check classification and in some cases there was not a full understanding (due to turnover in the finance team) of what the balance related to.</p> <p>This took some time and investigation in order to get full explanations for balances and to complete our testing.</p>	<p>We recommend that management strengthen future controls for review and reconciliation of debtor and creditor balances, and as mentioned above to produce clear reconciliations to subsystems.</p> <p><b>Management response</b></p> <p>Accepted.</p>
5	<p><b>Review of debtor existence</b></p> <p>We noted in our debtors testing numerous errors which were generally small in monetary terms, where the debtor either did not exist (had been paid prior to year end) or the cut off treatment was incorrect.</p>	<p>We recommend that management strengthen debtor reconciliation controls and introduces a review of the accrual process either to introduce a reasonable de-minimus for making accruals or ensures all accruals are correct through tightening review of cut off processes.</p> <p><b>Management response</b></p> <p>Accepted – the council continues to look to strengthen its debt recovery teams</p>

## Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice



# Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
<p><b>1 Adjustment due to updating the actuarial estimate of the actual return on pension fund assets and inclusion of the impact of the McCloud judgement</b></p> <p>See pages 8 and 9 for full details of the underlying work leading to these adjustments.</p>	Dr Comprehensive Expenditure £3,854k	Cr Net pension liability £4,402k	Dr Expenditure £548k
<p><b>2 Various debtor and creditor reclassifications as follows:</b></p> <ul style="list-style-type: none"> <li>- a capital creditor balance of £146k was in fact a debtor balance in 2018/19 and was reclassified to debtors;</li> <li>- a cremator and crematorium income suspense balance of £110k was incorrectly classified as a creditor and was reclassified to debtors;</li> <li>- a collection fund balance Council Tax share of receipts in advance of £934k was incorrectly classified as a creditor and was reclassified to debtors;</li> <li>- the balance of £218k held between the council and the Foreshore Charitable Trust was incorrectly classified as a debtor and was reclassified to creditors.</li> </ul>	Nil	Dr Short Term Debtors £1,409k Cr Short Term Creditors £1,409k	• Nil

# Audit Adjustments (continued)

## Impact of adjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
<p><b>3 Management adjustment to deferred income</b></p> <p>Management picked up during the audit that £143k income was incorrectly accounted for in the 2018/19 year which related to the 2019/20 financial year. They inputted an adjusting journal to correct this.</p> <p>We have reviewed the journal made and we agree that the business rationale is correct and this is a valid journal.</p>	Nil	Cr Short Term Creditors deferred income £143k	Dr Income £143k
<b>Overall impact</b>	Increase in Comprehensive Expenditure £3,854k	Increase in Short Term Debtors of £1,409k Increase in Short Term Creditors of £1,552k Increase of the Net Pension Liability of £4,402k	Increase in total net expenditure of £691k

# Audit Adjustments

## Disclosure changes

The table below provides details of disclosure errors and updates identified during the 2018/19 audit.

Disclosure changes	Detail	Result	Adjusted?
<b>Financial Instruments</b>	Fair Value of PWLB borrowings was incorrectly valued at premature redemption (£78,494k), where it should be valued at the new loan valuation rate (£67,472k).	Amended in the final financial statements.	✓
<b>Pensions Disclosures</b>	In the draft accounts the estimated employer's contributions for the period to 31 March 2020 was £2,045,000 whereas in the actuarial report the contributions are £2,475,000.	Amended in the final financial statements.	✓
<b>Audit Fees disclosure</b>	We requested that overall total fees were split between external audit and other services to correctly show the split of services rendered.	Amended in the final financial statements.	✓
<b>Group accounts</b>	In the group accounts Comprehensive Income and Expenditure Statement the other non-ringfenced government grants income was shown as £1,463k which was inconsistent with the total being brought into the group accounts from the authority general ledger of £2,574k, a difference of £1,111k. The group accounts were amended to correct this income to £2,574k.	Amended in the final financial statements.	✓
<b>Financial Instruments payments in advance</b>	£357k accruals for payments in advance was incorrectly classified as a financial instrument. This does not represent an obligation to pay cash in the future, so it is not appropriate to include this debtor in the financial instruments disclosure.	Amended in the final financial statements.	✓
<b>Financial Instruments receipts in advance</b>	£1,095k accruals for receipts in advance was incorrectly classified as a financial instrument. This does not represent a right to receive cash in the future, so it is not appropriate to include this creditor in the financial instruments disclosure.	Amended in the final financial statements.	✓

# Audit Adjustments

## Disclosure changes (continued)

Disclosure changes	Detail	Result	Adjusted?
<b>McCloud contingent liability</b>	As a result of the adjustment to the pension liability for the inclusion of actual returns on pension fund assets, and the resulting inclusion of the McCloud liability as a provision in the accounts, the contingent liability as disclosed in the draft accounts was no longer required and this needed to be removed from the accounts.	Amended in the final financial statements.	✓
<b>Future minimum lease payments receivable</b>	<p>In our review and testing of leases disclosed in Note 22 to the accounts we found that the total future minimum lease payments receivable under non-cancellable leases were calculated including contingent rentals (increases which relate just to inflationary increase linked to the passage of time and not from significant contractual changes).</p> <p>IFRS does not allow for the inclusion of these amounts in the minimum lease payments receivable and the contingent rental received in the year should be accounted for as income received in the year and disclosed separately. As a result</p> <p>Lease payments receivable within 1 year was amended from £4,401k to £4,169k (2017-18 amended from £3,631k to £3,453k)</p> <p>Lease payments receivable within 2-5 years was amended from £14,236k to £13,385k (2017-18 amended from £12,119k to £11,470k)</p> <p>Lease payments receivable after 5 years was amended from £78,532k to £67,886k (2017-18 amended from £76,316k to £68,150k)</p>	Amended in the final financial statements.	✓
<b>Related Parties</b>	Our view was that the amounts paid to/received from the Foreshore Trust and Hastings Housing Company Limited, along with the balance owed to/from these entities was not clearly disclosed in the related parties note in the draft accounts. The note was updated to include disclosure of these amounts.	Amended in the final financial statements.	✓

# Audit Adjustments

## Disclosure changes (continued)

Disclosure changes	Detail	Result	Adjusted?
<b>Accounting policy changes</b>	<p>There were some areas where our accounting disclosure checklist highlighted that the accounting policies in the draft accounts did not fully comply with the Code/IFRS, as follows:</p> <p>The Code requires some disclosure of the use of the going concern basis for local authorities that can only be discontinued under statutory prescription. This was not disclosed in the draft accounts.</p> <p>The sensitivity of the actuarial estimate of the net pension liability to changes in assumptions was not disclosed in detail.</p> <p>The authority's debt write off policy was not disclosed.</p> <p>The authority's depreciation and amortisation policy did not include information about the average useful economic life for asset classes, which meant it was difficult for user of the accounts to fully understand the policy and year on year changes.</p> <p>The disclosure of estimation uncertainty (around allowance for debt, provisions, and PPE valuation for example) did not fully quantify assumptions and the sensitivity of the estimates to changes in assumptions.</p>	Amended in the final financial statements.	✓
<b>Annual Governance Statement (AGS)</b>	<p>There were some areas where our review of the AGS highlighted that it did not fully comply with the Code/IFRS, as follows:</p> <p>The AGS did not mention the Group relationship, the activities of the Group, and whether the effectiveness of the system of internal control include its group activities.</p> <p>The AGS did not give a view of the the effectiveness of the control system including group activities.</p>	Amended in the final financial statements.	✓
<b>Minor casting and consistency amendments</b>	Through our checks of the financial statements and completion of disclosure checklists we highlighted a number of minor casting and consistency errors. These were agreed and amended in the final financial statements.	Amended in the final financial statements.	✓

# Audit Adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Note that Item 1 is an error which was identified in testing of representative samples. To evaluate the maximum error we then extrapolate these errors over the full population. Where the total potential error is immaterial, as these are, we would not request updating the accounts according to an estimated extrapolation, but we are required to report these errors to you as those charged with governance.

	<b>Detail</b>	<b>Comprehensive Income and Expenditure Statement</b>	<b>Statement of Financial Position</b>	<b>Impact on total net expenditure</b>	<b>Reason for not adjusting</b>
1	<p><b>Overprovision of car leasing expenses in the year</b></p> <p>We found an error where car leases were overprovided for by £1,332.10. When extrapolated as described above this totalled £91,499.76 which is immaterial.</p>	(£91k)	£91k	(£91k)	Immaterial extrapolation
2	<p><b>Unpaid leave accrual</b></p> <p>Management have chosen not to make an accrual for unpaid leave based on the estimate of the total liability at 31 March 2019 being immaterial to the accounts.</p>	£206k	(£206k)	£206k	Immaterial

# Fees

We confirm below our fees charged for the audit and provision of non-audit services:.

## Audit Fees

	Proposed fee £	Final fee
Council Audit	35,742	TBC (see note below)
<b>Total audit fees (excluding VAT)</b>	<b>35,742</b>	<b>TBC</b>

The audit has taken longer than planned due to the issues highlighted in this report. Consequently, we will hold a discussion with management in due course about additional audit fee.

## Non Audit Fees

Fees for other services	Fees £
<b>Audit related services:</b>	10,500
• Certification of the housing benefit subsidy claim for the 2018/19 period	
	<b>£10,500</b>

# Audit opinion

We anticipate we will provide the Group with an unmodified audit report:

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

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Hastings Borough Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement, the Group Balance Sheet, the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, and the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2019 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The Chief Financial Officer is responsible for the other information. The other information comprises the information included in the Financial Report and Statement of Accounts, the Narrative Report, and the Annual Governance Statement, other than the Authority and group financial statements and, our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the audit or otherwise appears to be

materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

#### Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

#### Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Financial Report and Statement of Accounts, the Narrative Report, and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

#### Responsibilities of the Authority, the Chief Financial Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to ~~make~~ prepare ~~prepare~~ for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Financial Officer. The Chief Financial Officer 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to



# Audit opinion (continued)

going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

### Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing 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.

### Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made 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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that 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 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Hastings Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

### Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Signature

Darren Wells  
for and on behalf of Grant Thornton UK LLP, Local Auditor

2<sup>nd</sup> Floor  
St Johns House  
Crawley  
RH10 1HS

### Date



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