The Audit Findings for Hastings Borough Council

Year ended 31 March 2020

November 2021

Contents

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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.

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 2020 for those charged with governance.

Progress update

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the group and Council.

Although the income and expenditure impacts in 2019/20 were not significant and are likely to be felt in 2020/21, the pandemic has presented the Council with significant front-line challenges such as administration of grants to businesses, starting to provide additional support to customers unable to pay council tax or business rates and additional monitoring and resetting of the 2020/21 budget and the Medium Term Financial Strategy to factor in the high level of uncertainty around the impact of Covid-19.

The pandemic has also impacted the Finance Team who like many other employees have had to adapt to working from home at short notice.

Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the CIPFA Code of Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.

We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum in January 2021 to the Audit Committee. In that addendum we reported an additional financial statement risk in respect of Covid-19 and highlighted the impact on our VfM approach. Further detail is set out on page 7.

Restrictions for non-essential travel and home working during the pandemic have meant both Authority and audit teams have had to perform the audit entirely remotely. This has required the audit team to use regular video calls to ensure that both teams kept in close contact as we would when carrying out fieldwork on site. The audit team have also had to consider alternative approaches to obtaining audit evidence to corroborate transactions, estimates and judgements in the financial statements. Remote working also requires our teams to carry out additional tests to corroborate the completeness and accuracy of information produced by the Council which we would otherwise have performed in person on site (for example viewing a report being run from Council systems by the officer). In common with all audit firms we have found that this way of working has proved more challenging and time consuming than carrying out an audit under normal circumstances on site and largely face to face.

The audit has also taken much longer to complete than would be expected for various reasons:

- The planned date to start the audit in July 2020 was moved back as accounts and working papers were not available until late September. This required us carry out the work alongside other audits and led to the handover of significant and complex pieces of work between members of the audit team;
- This impacted on the time taken to complete audit work and the completeness/quality of that work produced, meaning that some areas had to be tracked over again to re-work/raise further more detailed queries in order to complete the work.
- There were several versions of the accounts produced where management have amended the figures in the accounts for further information and/or corrections to previous journals entered into the accounts. These changes were not always supported by a clear audit trail. Combining this with the audit being handed over to GT team members who had not previously worked on the audit has proved challenging.
- Some of our 2018/19 observations about the clarity of balance sheet reconciliations and working papers underlying the accounts still remain an issue which we would recommend improvements in to assist an efficient audit process going forwards.

Headlines (continued)

Progress update (continued)	See above.	We are now reaching the end of our Senior Manager and Engagement Lead review of the file which has brought up some additional queries which we are working through with your finance team. The work we are completing at this stage is: - Final Senior Manager/Engagement Lead sign off on clearance of review notes; - Clearing Senior Manager/Engagement Lead review notes on the significant risk areas for Land and Buildings valuation and Net Pension Liability valuation; - Clearing Senior Manager/Engagement Lead review notes as final reviews are completed; - Final castings and checks on a final amended set of statements, agreeing the tie through from version 1 to the current version 4 of the accounts provided - as mentioned above tracking through these additional journals has meant significant updates to lead schedules on file and further checks of the subsequent versions of the statements; - Checking all agreed amendments made correctly to the statements; - Re-checking that financial figures in the Narrative Statement agree to the amended financial statements and all figures are internally consistent; - receipt of management representation letter Our findings are summarised on pages 7-16. We have identified audit adjustments to the financial statements that have resulted in adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix B. Our follow up of recommendations from the prior year's audit and current year recommendations are detailed in Appendix A. We will be proposing an audit fee variance and this will be discussed with your Chief Finance Officer at the end of the audit. Any fee variance is subject to Public Sector Audit Appointments (PSAA) consideration and approval.
Value for Money arrangements	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').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that Hastings Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We did not identify any new VfM risks in relation to Covid-19. We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 19 to 23.
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 the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Audit approach

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 the group's business and is risk based, and in particular included:

- An evaluation of the group's 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; and
- An evaluation of the component of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that we would carry out specific audit procedures on property, plant and equipment balances, along with substantive testing on other material balances and analytical review on remaining income/expenditure/assets and liabilities.

We have not had to alter our audit approach, as communicated to you in our Audit Plan and subsequent Addendum.

Conclusion

We have substantially completed our audit of your financial statements and subject to our completion of the audit work on page 4, we anticipate issuing 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.

Materiality levels remain the same as reported in our audit plan.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,450,000	1,447,000	We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year.
Performance materiality	1,013,000	1,010,000	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	72,500	72,200	We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance
Materiality for cash and cash equivalents	500,000	500,000	Our assessment of what users would consider to be material with respect to these disclosure areas.
Remuneration disclosures	20,000	20,000	Our assessment of what users would consider to be material with respect to cash

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid– 19 Risk description unchanged from that reported in our audit plan addendum.	We have: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The completed draft financial statements were provided in early September 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. As a result of the Covid-19 pandemic, the property market remains very uncertain. Consequently, material uncertainties have been declared by the professional valuer relating to land and buildings, and also by an investment manager for pooled property investments held by the pension fund administrator and underlying the net pension liability. We have discussed this with management to agree disclosure of these uncertainties in Note 5 Assumptions Made About The Future And Other Sources Major Sources of Estimation Uncertainty. Where such disclosures are included within financial statements auditors consider the need to include an 'emphasis of matter' paragraph within their audit report. An emphasis of matter is not a qualification or modification of the auditor's report, but is used to draw the reader's attention to a matter that has been appropriately presented or disclosed in the financial statements and which, in the auditor's judgement, is of such importance that it is fundamental to the users' understanding of the financial statements. We have concluded that our audit opinion on the Council's 2019/20 financial statements should include an Emphasis of Matter drawing attention to the material valuation uncertainties disclosed Subject to completion of the work on page 4, our work against this risk has not raised further issues.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Improper revenue recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. In our audit plan we reported that we had 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 erroneously stated in the plan that we had not rebutted the risk for fees, charges and other service income. We had in fact determined from our experience as your auditor from 2018/19, and through our documentation and walkthrough of your business processes around revenue recognition that the risk of fraud arising from revenue recognition could be rebutted, because: - there is little incentive to manipulate revenue recognition; - opportunities to manipulate revenue recognition are very limited; - the culture and ethical frameworks of local authorities, including Hastings Borough Council, mean that all forms of fraud are seen as unacceptable.	We did not change our planned approach, and therefore there is nothing further to report with respect to revenue recognition.
Management override of controls Risk description unchanged from that reported in our audit plan.	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 as part of accounts production for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements 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.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings Risk description unchanged from that reported in our audit plan.	We have: • 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; • written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met and discuss this basis where there are any departures from the Code; • 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 Authority's asset register; and • 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. On all material areas of land and buildings which were revalued during the year we have reviewed and challenged the valuations method, and key assumptions and inputs into the valuation estimate. We have shown our detailed analysis and review of the estimation process in the key judgement and estimates section. See comments about the estimation uncertainty around valuation of land and buildings on page 7 above. Our audit work so far has not identified any issues in respect of valuation of land and buildings. However we are still completing senior management review of this area of the audit. Subject to satisfactory resolution of matters identified on page 4, our audit work has not so far identified any issues in respect of valuation of land and buildings.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of pension fund net liability Risk description unchanged from that reported in our audit plan.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested 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; and • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by using an auditor's expert. • obtained assurance from the auditor of the East Sussex Pension Fund (ESPF) on the validity and accuracy of the membership, contributions and benefits data provided by ESPF to the actuary, and used by the actuary to calculate the Council's net pension liability. We have provided information about our detailed review of the estimation process in the key judgement and estimates section. We report our commentary on sources of estimation uncertainty stemming from the Covid-19 pandemic impacts and their disclosure in the accounts at page 7, the Covid-19 audit risk. In 2018 the Court of Appeal ruled there was age discrimination in the judges and firefighters pension schemes where there was transitional protections given to scheme members – this also impacted Local Government Pension Schemes. Following the McCloud judgment the cases were referred back to Employment Tribunals for remedy. The tribunal issued an interim declaration providing that claimants who were active members on 31 March 2012 are entitled to be treated as having met the conditions for full transitional protection. In July 2020, the government released a consultation on applying the remedy, and this is the next phase of the Government's response to address this discrimination. From an accounting perspective, we concluded that the consultation is an event after the reporting period which provides an indication of possible remedy. However, as there remain a number of uncertainties before this is implemented, we do not regard publication of the consultation to be an adjusting event. It may be some time before the outcome of the consultation is known, and an adjusting event crystallises, but management should continue to keep the development of the pension schemes under review. The accounts presented to members, correctly, do not reflect the impact of the government's remedy consultation. Note that in the accounts presented for audit there was a discrepancy in the value of the net pension liability which was shown on the balance sheet as a £77m liability which did not agree to the actuarial estimate of the liability. The Finance Team subsequently picked up the discrepancy and have adjusted the accounts so that they agree to the actuarial report. As this was a management adjustment to the accounts during the audit, we have not reported this as an audit adjustment. We are still completing senior management review of the audit work in assessing the reasonableness of the estimated pension fund net liability. Subject to satisfactory resolution of matters identified on page 4, our audit work has not so far identified any issues in respect of valuation of the net liability.

Other audit issues

Risks identified in our Audit Plan	Auditor commentary
IFRS 16 implementation has been delayed by one year Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.	In our review of the Council's accounting policies we identified that the disclosure in relation to IFRS 16 was not included in the draft accounts – we have raised this with management as an update to the disclosures and this is included in Appendix B.

Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
Loan to subsidiary Hastings Housing Company Ltd The loan made to the subsidiary has grown significantly from £1.3m at 31 March 2019 to £5.8m at 31 March 2020. Any loan made presents some recovery risk to the Council. In the case of the subsidiary the assets on the company balance sheet are properties purchased since the company was formed.	We have carried out targeted procedures on the investment property assets which are held on the balance sheet of Hastings Housing Company and which are consolidated into the group accounts. We have assessed the valuation of the properties by carrying out a market comparative analysis against similar properties in the area. We were satisfied that the stated values of the investment properties in the company balance sheet are materially correct, and that these balance sheet assets sufficiently underpin the recoverability of the loans.	We are satisfied that there is no evidence to suggest that the loan repayable from the subsidiary to the Council is unrecoverable, and therefore no evidence of a missing provision in the single entity accounts.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Provisions for receivables - £1.477m	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.		
	Housing benefit overpayments: a provision of 50% based on a recoverability analysis.	We reviewed the reasonableness of the recoverability analysis and we were satisfied that a provision of 50% was reasonable.	● (green)
	Trade receivables general bad debt provision: 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.	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. Note that working papers for the provision did not clearly set out commentary on the basis of the estimate and judgements made as we would expect. We have added a recommendation to the action plan in the Action Plan related to this.	

Assessment

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

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Provisions for NNDR appeals - £1.771m	The Council are responsible for repaying a proportion of successful rateable value appeals. The provision includes an amount for appeals lodged to date but yet to be determined by the Valuation Office Agency (VOA) plus an amount for appeals expected but not yet lodged with VOA which has been estimated. The estimate is calculated using information on outstanding appeals at 31 March 2020 and success rates for settled appeals provided by the Valuation Office Agency. The latest information from the Valuation Office Agency has been used to estimate the provision required at 31 March 2020 for appeals against the 2010 list that remain outstanding at the balance sheet date. The appeals process changed with effect from April 2017 following the introduction of 'Check, Challenge, Appeal'. This introduces two initial stages prior to the appeal stage. The overall provision is estimated calculated on the basis of experience in regards to the 2010 List, and by applying a single estimated success rate to the 2017 List which is based on a look across other authorities at what is considered to be reasonable/comparative, and also by carrying out a sense check against actual reductions applied for difference appeals grounds.	We have reviewed the basis of this provision and considered this to be reasonable based on the assumptions underlying the provision and previous success rates. The information used to calculate the estimate is the most recently available information from the Valuation Office Agency, which we consider to be the most reliable available source for this information. We consider the calculation method for the estimate, based on average historic success rates to be reasonable. Note that working papers for the provision did not clearly set out commentary on the basis of the estimate and judgements made as we would expect. We have added a recommendation to the action plan in the Action Plan related to this.	●
The Foreshore Charitable Trust	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.	We have discussed this critical judgement with management, and obtained a more detailed commentary on the constitution of the charitable fund. 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. We were satisfied that this critical judgement was reasonable.	●

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

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other - £113.254m **Surplus Assets – £8.179m** **Investment Properties - £1.166m single entity accounts, £6.636m group accounts**	**Land and Buildings** Other land and buildings comprises £15.356m of specialised assets such as, leisure Centres and Public Conveniences which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£97.898m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Wilks Head & Eve LLP to complete the valuation of properties as at 31/3/2020 on a five yearly cyclical basis. 57% of total assets were revalued during 2019/20. In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council had not disclosed this in the accounts. We discussed this with management, and it was agreed that information regarding the material uncertainty would be included in disclosures in Note 5 to the financial statements. The valuation of properties valued by the valuer has resulted in a net increase in valuation. Management have assessed their assets for any impairments; no material impairments were noted. **Surplus Assets** Estimated by the professional valuer at fair value based on notional "alternative use" based on potential development on a land basis. **Investment Properties** Estimated by the professional valuer at fair value based on an income approach using the rental value of the property.	• We assessed management's valuer to be competent, capable and objective; • The valuation method remains consistent with the prior year; • We reviewed the completeness and accuracy of the underlying information provided to the valuer used to determine the estimation. We have so far not identified any significant discrepancies; • We confirmed consistency of the estimate and the reasonableness of changes against data produced by our valuers; • We have agreed the valuation report to the fixed asset register and the statement of accounts. • Subject to satisfactory resolution of matters identified on page 4, we are satisfied that the key estimates and judgements underlying the revaluation estimate for land and building is reasonable.	●

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

Significant findings – key estimates and judgements

Accounting area | **Summary of management's policy** | **Auditor commentary** | **Assessment**

Net pension liability – £37,266m

Summary of management's policy

The Council recognises and discloses the defined benefit obligations in accordance with the measurement and presentational requirements of IAS 19 Employee Benefits.

The Council uses Hymans Robertson LLP to provide actuarial valuations of the Council's assets and liabilities derived from the scheme.

A material uncertainty was disclosed by an investment manager for pooled property investments held by the pension fund administrator and underlying the net pension liability at 31 March 2020 as a result of Covid-19. The Council had not disclosed this in the accounts. We discussed this with management, and it was agreed that information regarding the material uncertainty would be included in disclosures in Note 5 to the financial statements.

The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy ,discount rates ,salary growth and investment return .Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £3.981m net actuarial gain during 2019/20.

Auditor commentary

- We assessed management's actuarial expert and concluded they are clearly competent, capable and objective in producing the estimate;
- We carried out analytical procedures to conclude whether the Council's share of LGPS pension assets and liabilities was reasonable. We concluded the Council's share of assets and liabilities was analytically in line with our expectations;
- We engaged an auditor's actuary expert to challenge the reasonableness of the estimation method used and the approach taken by the actuary to verity the completeness and accuracy of information used. We were satisfied that the actuary was provided with complete and accurate information about the workforce, and that the method applied was reasonable;
- The auditors' expert provided us with indicative ranges for assumptions by which we have assessed the assumptions made by management's expert. As set out below all assumptions were within the expected range and were therefore considered reasonable:

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.3%	2.3%	●
Pension increase rate	1.9%	1.8-2.0%	●
Salary growth	1.9%	1.90-2.90%	●
Life expectancy – Males currently aged 45 / aged 65	Aged 45: 22.5 years Aged 65: 21.6 years	Aged 45: 21.6-23.3 Aged 65: 20.5-22.2	●
Life expectancy – Females currently aged 45 / 65	Aged 45: 25.3 years Aged 65: 23.9 years	Aged 45: 24.6-26.3 Aged 65:22.9-24.3	●

- We reviewed the adjustments made as a result of the McCloud judgement and considered the impact of the 'other experience' adjustments arising from the triennial actuarial valuation. We confirmed there were no significant changes in 2019/20 to the valuation method.

Assessment

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

Significant findings – going concern

Our responsibility

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).

Going concern commentary	Auditor commentary
Management's assessment process • Detailed budget setting and budget review/approval governance processes are undertaken in February 2020; • This includes consideration of the adequacy of reserves and the setting of a working balance level considered appropriate; • Subsequent to the start of the Covid-19 pandemic, detailed Covid-19 returns to government on cost/revenue impacts are being completed. The 2020/21 budget is being reforecast to incorporate known impacts, and the MTFS is being remodelled to reflect the uncertainty around COVID-19 impact; • The Council’s cash flow forecast is prepared annually in advance as part of budgetary preparations, and is then maintained periodically so that a 12 month forward forecast can be produced when necessary for review to ensure liquidity to meet obligations as they fall due; and • Balance sheet positions, including the cash position, is forecast over the MTFS for further management assurance over liquidity, taking into account capital investment plans and planned use of reserves, and forecast investment balances and borrowing needs for planning purposes.	Management have prepared the accounts on the going concern basis based on their assessment processes as documented adjacent: • You have a well-established financial planning framework and have set a balanced budget for 2020/21; • At 31 March 2020 the Council had total general fund and earmarked reserves of £18,040,000 (£18,976,000 at 31 March 2019); • The Council has updated its 5-year Medium Term Financial Plan to take account of the impact of the pandemic. The Council has sufficient general fund and earmarked reserves to cover contributions to support the revenue budget over the lifetime of the plan the council is forecasting over 5 years in the unlikely event that these all needed to be funded through use of reserves; • At the date of the audit, forward cash forecasts demonstrate that the Council has sufficient cash to cover forecast liabilities as they fall due and to remain in a positive cash position.
Work performed by the audit team – see adjacent	We have reviewed management’s process to assess the use of the going concern basis. We reviewed the 2020/21 budget and the reforecast MTFS, including the key assumptions, to confirm that they are reasonable in line with our knowledge of the Council and the sector. We documented the cash-flow forecasting process. We were satisfied through our review of these processes that management have in place adequate processes to continually assess the use of the going concern basis, and adequate financial governance and risk scenario planning processes to anticipate and mitigate events which might present a risk to going concern. We have not identified any material uncertainty over the going concern basis adopted. We concluded that management’s continued use of the going concern concept to prepare the financial statements remains appropriate.

Other matters for communication

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	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, including specific representations in respect of the Group.
Confirmation requests from third parties	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.
Disclosures	Our review found some disclosure issues/omissions which are documented in Appendix B.
Audit evidence and explanations/significant difficulties	Except for the audit work outstanding on page 4, all information and explanations requested from management was provided.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We are still completing our checks in this area.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • 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; • If we have applied any of our statutory powers or duties. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	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. This work is not required as the Council does not exceed the threshold.
Certification of the closure of the audit	We intend to certify the closure of the 2019/20 audit of Hastings Borough Council in the audit report, as detailed in Appendix D.

Value for Money - Introduction

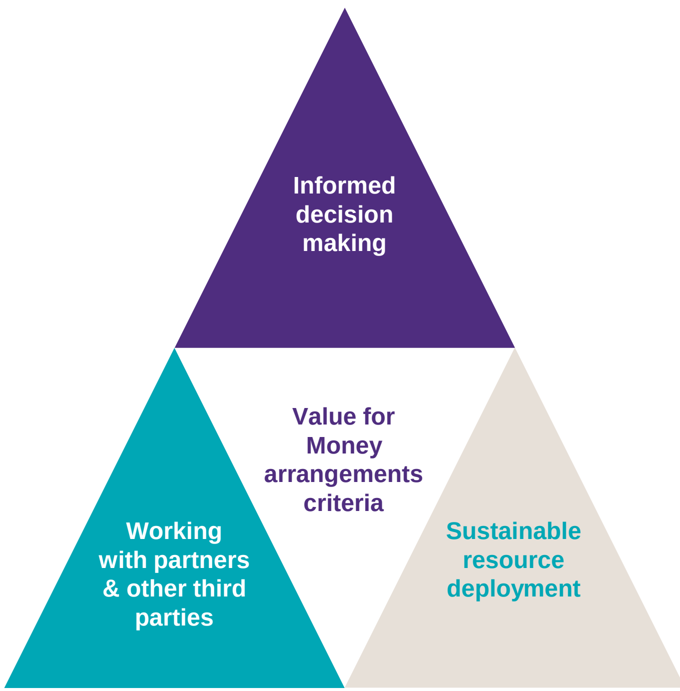
Background to our VFM approach

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 April 2020. 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 2020 and identified a 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 March 2020. The significant risk is shown on page 20.

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. In our plan Addendum which was issued in January 2021 subsequent to the impacts of the Covid-19 pandemic we reported that we had updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We did not identify any new VfM risks in relation to Covid-19. We were satisfied that our work addressing the Medium Term Financial Sustainability risk would allow us to address the ways that Covid-19 has impacted on the Authority's medium term financial sustainability, how management are forecasting the impacts on future income and expenditure, and the arrangements that have been put in place by management to respond to these impacts

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

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.

The text of our report, which confirms this can be found at Appendix D.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Value for Money - Introduction

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 risk that we identified in the Council's arrangements, which was as follows:

Medium term financial sustainability

Across the Local Government sector medium to long term financial plans are under strain due to reductions in central government funding along with increases in demand. In the 2017/18 and 2018/19 years the Council had deficit financial results on its provision of services. As at month 9 of the 2019/20 financial year, the revised budget shows a forecast service expenditure deficit of £262k, though after use of funding from the transition and other reserves the result is a £272k positive variance against the budget. The authority is responding to funding challenges in a variety of ways, through identifying efficiencies & new sources of funding, working with partners, and engaging in service redesign.

The Council set a balanced budget for 2020/21, composed of a £1.152m deficit result balanced by use of reserves. £1.8m of PIER savings have been identified the year, though these have been insufficient to close the budget gap and the authority expects to use reserves to balance the budget. The Medium Term Financial Strategy sets out expectations of funding shortfalls of between circa £500-800k for each of the 3 years in the Strategy through to 2023/24. There are savings and income generation plans in place which will mitigate some of the impact, but the expected results will entail use of the Council's current usable reserves which will be difficult to replenish. The authority continues to develop and implement regeneration plans to attract housing and investment into the area, and generate additional revenues.

With the recent changes to the overall majority in central government, this is likely to lead to ongoing uncertainty in local government funding, and therefore there is currently no reasonable estimate that can be made for the impact of the ongoing Fair Funding Review and potential changes to Business Rate retention leading to ongoing medium term budgetary uncertainty going forwards. (continued on next page)

Local Government reserves levels are under increased scrutiny with the high level of uncertainty over funding levels. At 31 March 2019 the usable reserves stood at £20.8m, a level which is considered by the Council to be sufficient to ensure the ongoing sustainability of the organisation.

The clear steep challenges in this area around uncertainty of ongoing funding levels and restricted means by which to increase revenue levels and maintain/increase useable reserves lead us to conclude that medium term financial sustainability is a significant risk for the authority.

Our work will primarily include:

- Reviewing performance in the current 2019/20 year against budget as a means of assessing the reasonableness of the authority’s budgeting methods;
- Reviewing management’s methods/processes in building the budget and Medium Term Financial Strategy;
- Understanding and challenging the key assumptions and estimates, particularly those that are highly judgemental, and comparing these to other authorities and our overall sector knowledge;
- Assessing and understanding how the authority sets the level of minimum reserves which should be held to maintain council services/funds through uncertainty, and concluding on whether the management considerations in setting the level are reasonable; and
- Discussion and consideration of the authorities regeneration/development plans and other areas of future uncertainty.

We have set out more detail on the risk we identified, the results and conclusions of the work we performed, and the recommendations we have made on pages 21-22.

Value for Money - Summary

Overview of 2019/20 performance

The financial resilience of the Council depends on its ability to balance income and expenditure, without over-reliance on reserves to fund the day to day cost of services. Your planning framework is based on a 5 year Medium Term Financial Plan (MTFP) which is aligned with the budget-setting process and updated annually. In recent years you have been proactive in responding to the implications of reductions in government funding, both by planning for financial savings and developing alternative sources of income.

Prior to the impacts of the pandemic, the Council, like most others, has in recent years experienced a significant increase in structural demand-led pressure budgets alongside reductions in government funding. The Council has responded to this by establishing Priority Income and Efficiency Review (PIER) savings schemes and focussing on generating new streams of revenue. In the 2018/19 year, we reviewed the processes, key assumptions and estimates underlying the production of the 2019/20 budget and the MTFP and we were satisfied that they were robust and would produce reasonably accurate forward forecasts. The Council initially set a budget for 2019/20 which required a contribution from reserves of £1.7m in order to close the budget gap between forecast income and expenditure. The impact of the Covid-19 pandemic on the Council's financial position in 2019/20 has been limited, with lockdown arrangements commencing in late March 2020 and most of the significant budgetary implications really starting to be felt by the Council from April/May 2020 onwards.

The final outturn position for the 2019/20 financial year was a deficit of £1.598m compared to the budget deficit of £1.798m. The Council achieved 98% of the £1.248m PIER savings target for the 2019/20 year. As at 31 March 2020 the Council's reserves totalled £17.61m with the General Reserve alone standing at £7.3m. This exceeds the minimum level of General and Capital reserves which management have considered and concluded should be £6m.

2020/21 – The Impact of the Pandemic

The real impact of Covid-19 on the Council's finances will be felt in 2020/21 onwards. In February, 2020 prior to the impact of Covid-19 being known, you had set a budget deficit of £1.182m which included a challenging savings plan target of £1.784m and additional cost pressures of £786k.

The impact of the pandemic means the Council faces additional pressures both from the loss of income and additional costs. The loss of income reflects the impact of wider economic conditions, including reduced income from car parks and commercial property.

The Council has had to significantly adapt its operation due to the impact of the pandemic on the local residents, inevitably leading to additional costs. These changes have included:

- Establishment of a Community Hub to support the most vulnerable residents;
- Adapting customer contact and communications due to the closure of Council offices to visitors;
- Significant additional costs of housing vulnerable homeless and those in unstable housing situations, along with increasing outreach service costs;
- Providing financial support to the operator of the Council's leisure facilities;
- Providing significant levels of financial support through Council Tax support grants and hardship funds to assist residents in paying their bills, and paying grants to businesses and business rate suspensions. Although a significant portion of this is reimbursed by government funding there is inevitably a portion of additional costs which will need to be borne directly by the Council.

The Council is also experiencing reduced collection rates for both NNDR and council tax, leading to a forecast deficit on the Collection Fund at 31 March 2021. This will have no financial impact in the current year, and councils are allowed to spread any 2020/21 deficit over a three year period. However, the need to meet the Council's share of the deficit will be an additional financial pressure in future years.

In October 2020 the Council set out its priorities and larger action plan for recovering from the impacts of the pandemic; set out how it would adapt to providing the services essential for the District and how business operations would restart and recover in a safe and sustainable way. This plan set out key actions for the Council through to the end of the 2020/21 year, key issues/risks and an Action Plan across the Council's services.

Value for Money - Summary

In terms of financial planning since the impact of Covid-19, the Council has been required to submit MHCLG Covid-19 income and expenditure pressures return every month since it was introduced in April 2020. This requires the Council to accurately report the additional income and expenditure impacts which are attributable to Covid-19. We have been provided with and reviewed examples of the return submissions and the Finance Team's detailed underlying working papers for the return. We were satisfied that the Finance Team had established a robust way to compile and report this data, and this data was being used in turn to inform forward forecasting of the year and medium term plans in the context of the pandemic.

The Finance Team have used the data analysis produced from the returns to set out estimates of the total increased costs and reduced income streams for the year, and during the year they have set out best-case, medium-case and worst case planning scenarios for the 2020/21 year position, as well as compiling analysis and forecast to support production of the revised MTFP.

At February 2021 the fully revised 2020/21 budget was reported, showing that after loss of income and increased expenditure was offset by additional funding, the deficit result reduced from the original forecast £1.182m to £0.756m, thereby reducing the anticipated use of reserves in the 2020/21 year.

The Medium Term Outlook

Despite the eventual favourable variance against the 2020/21 budget, the outlook over the 5 year MTFP period for the Council has become even more challenging. For 2021/22 the Council has only been able to set a balanced budget through the planned use of £1.592m of reserves. This would be funded from the Council's Resilience and Stability Reserve (£400,000) and the General Reserve (£1.192m) – leaving the General Reserves at a level which is just above the minimum level recommended by the Chief Financial Officer (£6m).

After extrapolating the anticipated economic shock impacts of the pandemic alongside Brexit, it is clear the Council has some particular downside risks where it is likely to be subject to greater volatility in income from non-domestic rates and expenditure on council tax support claims. There are also likely to be significant areas of other revenue streams which the Council has invested in which do not fully recognise their potential in the short term.

The forecasts over the years 2022/23 to 2024/25 are for a budget gap in the region of £2.5m. By the end of 2021/22 the Council would most likely be close to the minimum General Reserve position of £6m. If the subsequent deficits could not be closed by additional savings or increased income, then the Council could be forced to use further the General Reserve funds. If these funds are used this could lead the Council to need to make very difficult decisions around where to cut back services to achieve a balanced budget but also to restore reserves.

This forecast is subject to a great deal of uncertainty due to a lack of clarity on the Fair Funding Review, the promised introduction of the 75% Business Rate Retention Scheme, and what might replace the New Homes Bonus. This current forecast means that until there is further certainty on funding streams the Council will need to plan forward based on the assumption of continued reductions in funding, and therefore will need to prioritise its use of resources in areas that generate additional income or where costs can be reduced. This could prevent the Council from undertaking itself, or underwriting, the major redevelopment initiatives which have been part of the longer term plan for the area.

Whilst funding and increased demand is of overriding concern, there are still many positive initiatives being undertaken by the Council. The Council's existing programmes include a new hotel in Cornwallis Street, Harold Place redevelopment, units at Churchfields Industrial Estate, the town's Lower Tier and West Marina development are potentially valuable regeneration schemes.

We concluded that the risk we identified was sufficiently mitigated and that the Council has proper arrangements for securing economy, efficiency and effectiveness in the use of resources.

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

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council’s Ethical Standard and we as a firm, and each covered person, confirm that we 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

Independence and ethics

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. The following non-audit services were identified which were charged from the beginning of the financial year to February 2021, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of the Housing Benefits Grant Claim	12,300	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,300 in comparison to the total fee for the audit of £43,242 (planned fee, final fee TBC) and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

These services are consistent with the group's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees.

Follow up of prior year recommendations

We identified the following issues in the audit of Hastings Borough Council's 2018/19 financial statements, which resulted in 5 recommendations being reported in our 2018/19 Audit Findings report. We have followed up on the implementation of our recommendations as follows:

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Assurance over assets not revalued** 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. 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. We recommended that management strengthen future working papers in this area to provide a detailed assessment that can be audited.	Management has made use of the market review report issued by WHE expert valuer to assess assets not revalued during the year and provide a working paper with their assessment of the potential movements in value of assets not revalued.
✓	**Migration of ERP system** 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. 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 recommended 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.	There was no system migration during the year against which to assess this recommendation. Should there be a system migration in future years we will make further assessment of the systems and controls in place.

Assessment

- ✓ Action completed
- X Not yet addressed

Follow up of prior year recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Supporting working papers to the accounts preparation** 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. We recommended that management strengthen future working papers for their own internal assurance, and to support a more efficient audit.	Although there have been improvements year on year, our view is that there could still be further improvements to working papers. We would particularly recommend that balance sheet debtors and creditor working papers are improved.
X	**Review of debtors and creditors classifications** 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. This took some time and investigation in order to get full explanations for balances and to complete our testing. We recommended that management strengthen future controls for review and reconciliation of debtor and creditor balances, and as mentioned above to produce clear reconciliations to subsystems.	Our view was that the debtor and creditor sub-ledger systems and the supporting working papers still require some additional review to ensure balance sheet reconciliations are clear. There were some instances of underlying listings not quite agreeing to the ledger balance and this making these balances more difficult to audit.
X	**Review of debtor existence** 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. We recommended 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.	In completion of our debtor work we have encountered areas where we need to query the debtor existence; older debtors which did not have robust support, and debtors which appeared to be paid but did not have the payment matched against the debtor.

Assessment

✓ Action completed

X Not yet addressed

Action Plan

We have identified 2 recommendations for the group as a result of issues identified during the course of our audit. We will report on progress on these recommendations during the course of the 2020/21 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	●	**Estimates of provisions for impairments – underlying support for the estimates and associated judgements** Working papers for estimates for provisions for impairments in the accounts which constitute a material accounting estimate are not sufficiently clear to allow a clear understanding of the calculation of that estimate and the judgements underlying the calculation of the estimate. As a highly subjective estimate we would recommend that they are presented with a working paper which clearly sets out the rationale for the estimate and any changes to % rates of impairment which are applied. This will help the audit team in efficiently auditing these provisions, and also ensures that where team members change in the authority the trail for the estimate is also clear.	We recommend that management strengthen future working papers in this area to provide a more detailed explanation of the rationale for these sensitive accounting estimates. **Management response** Agreed with enhancements made to existing working papers
2	●	**Amendment to accounts following the initial draft** There were some amendments to the accounts made by the Authority after the draft was presented; 3 further draft versions of accounts were produced with the first 2 subsequent versions being due to amendments made by management as opposed to audit adjustments. The audit trail for these accounts changes was not clear.	We recommend that where the Authority team makes adjustments to the accounts, a log of accounts changes is kept which makes clear why the changes have been made and references into working papers. **Management response** Agreed with enhancements made to existing log.
3	●	**Updating useful economic lives in the fixed asset register** Some of the Useful Economic Lives for building assets which had been revalued by the professional valuer in year had not been updated in line with the advised useful lives. This meant that the depreciation charge had not been calculated/estimated in line with the useful lives as estimated. The impact was not material but was above our triviality threshold (see below)	We recommend that where the professional valuer advises useful lives for assets which are revalued that these are updated in the fixed asset register. **Management response** Agreed with updates made where applicable.

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 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Vehicles, Plant and Equipment opening balances A difference of £218k was identified between the fixed asset register and the general ledger/accounts opening balances. Accumulated depreciation on a fully written-off asset had erroneously been written off as a disposal during 2018/19 thereby introducing this difference between the fixed asset register and the general ledger/accounts. Although this was immaterial, management have decided to adjust the value so that the fixed asset register and general ledger accounts opening balances agree.	Nil	Dr Vehicle, Plant and Equipment gross book value £218k Cr Accumulated Depreciation £218k	Nil
Difference on revaluation reserve A difference of £98k was identified between the value of the total value per the fixed asset register and per the professional valuer summary for one of the revalued Treatment centres. Through further enquiry of management it was noted that the fixed asset register kept the assets value as an even split where as the valuation report produced the value for the asset as a whole. As this will have an impact on revaluation movement and to prevent it being carried over to 2021 year, management has agreed to process an adjustment of the difference.	Nil	Dr revaluation reserve £98k Cr Land and Buildings gross book value £98k	Nil
Accrual of exit packages in Employee Remuneration A number of exit packages paid after the year end which related to the 2019/20 financial year had not been accrued into the year. To correct this an accrual of £321k additional exit package costs needed to be made, and the associated Note 21 Termination Benefits and Exit Packages also needed to be updated with all amounts paid.	Dr Employee Remuneration £321k	Cr Accruals £321k	£321k
Overall impact	**£321k**	**(£321k)**	**£321k**

Audit adjustments

Impact of adjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Accrual of the audit fee in line with the proposed fee The accrual for the audit fee in the accounts was amended from £37k to the £43k proposed fee as in the Audit Plan. Although this amount is trivial this is amended due to the sensitivity of this disclosure in the accounts.	DR audit fee £6k	Cr Accruals £6k	£6k
Overall impact	**£327k**	**(£327k)**	**£327k**

Audit adjustments

Impact of unadjusted misstatements

Detail	Comprehensive Income and Expenditure Statement £‘000	Statement of Financial Position £’ 000	Impact on total net expenditure £’000
Overstatement of the depreciation charge Some of the Useful Economic Lives for building assets which had been revalued by the professional valuer in year had not had been updated in line with the advised useful lives. This meant that the depreciation charge was overstated by £83k.	CR Depreciation Charge £83k	DR Accumulated Depreciation £83k	£83k
Overall impact	**(£83k)**	**£83k**	**£83k**

Audit adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Material uncertainty PPE valuation	As a result of the Covid-19 pandemic, the property market remains very uncertain. As a result of this, material uncertainties have been declared by the professional valuer relating to land and buildings. This material uncertainty was not appropriately disclosed in the draft accounts.	We have discussed this with management and recommended that the issue and a broad sensitivity analysis of potential variability in the PPE valuation is included within Note 5 Assumptions Made About The Future And Other Sources Major Sources of Estimation Uncertainty. **Management response** This was an agreed amendments to the accounts.	✓
Material uncertainty – pooled investment held by the pension fund administrator	As a result of the Covid-19 pandemic, the property market remains very uncertain. As a result of this, material uncertainties have been declared by an investment manager for pooled property investments held by the pension fund administrator and underlying the net pension liability. This material uncertainty was not appropriately disclosed in the draft accounts.	We have discussed this with management and recommended that the issue and a broad sensitivity analysis of potential variability in the net pension liability valuations is included within Note 5 Assumptions Made About The Future And Other Sources Major Sources of Estimation Uncertainty. **Management response** This was an agreed amendments to the accounts.	✓
Financial Instruments	During our work on Note 18 it was picked up and queried that loans and receivables at book value was stated as £10,006k and fair value as £0 which appeared unusual. Management reviewed Note 18 and revised the disclosure to book value as £4,997k and fair value as £5,003k. We were satisfied on review of supporting documentation that this was accurate. This did not require any adjustment to the balance sheet.	The note was updated in response to our query. **Management response** This was an agreed amendments to the accounts.	✓
Debtors note	During our work on Note 16 we observed that there was a material class of long term debtor (debtor loan owed by the subsidiary Hastings Housing Company Ltd. which should have been disclosed individually.	We recommended that the note was updated so that this material debtor was disclosed individually. **Management response** This was an agreed amendments to the accounts.	✓

Audit adjustments

Misclassification and disclosure changes (continued)

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Financial Instruments – short term debtors	In the draft accounts, short term debtors did not include all the balances in the working papers. We discussed this with management and agreed that the total of £3,430k per the draft accounts needed to be updated to £3,997k.	We have discussed this with management and agreed this accounts update. **Management response** This was an agreed amendments to the accounts.	✓
Note 21 Termination Benefits and Exit Packages	The amounts of Termination Benefits and Exit Packages were understated by £349k in the draft accounts presented for audit. We recommended that this Note was updated to accurately reflect these items which are of increased interest to users of the accounts.	We have discussed this with management and agreed this accounts update. **Management response** This was an agreed amendments to the accounts.	✓
Note 16 reclassification of the debtor for the Syrian Resettlement Programme grant	This debtor of £698k was classified as a Trade Debtor, and should have been classified as an Other Debtor. We recommended that this was reclassified within the note.	We have discussed this with management and agreed this accounts update. **Management response** This was an agreed amendments to the accounts.	✓
Group accounts – Current Assets	There was a £320k error in the Short Term Debtors figure in the draft consolidated accounts. This needed to be increased by £320k in order to cast correctly to the total current assets below.	We have discussed this with management and agreed this accounts update. **Management response** This was an agreed amendments to the accounts.	✓
IFRS 16 disclosure	As discussed on page 11 Authorities should include disclosure of IFRS 16 as a standard which will be implemented and the expected date of implementation. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.	We have discussed this with management and agreed this accounts update. **Management response** This was an agreed amendments to the accounts.	✓

Audit adjustments

Misclassification and disclosure changes (continued)

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Related Parties note	In the draft accounts the figures disclosed for the debt owed to the Council by Hastings Housing Company did not agree to the debt working paper balances.	We have discussed this with management and agreed this accounts update. **Management response** This was an agreed amendments to the accounts.	✓
Finance Lease minimum lease payments disclosure	Similarly to the 2018/19 year the total future minimum lease payments receivable under non-cancellable leases were calculated including contingent rentals. IFRS does not allow for the inclusion of contingent rentals in the disclosed amounts. The contingent rental received in year should be accounted for as income received in the year and disclosed separately.	We have discussed this with management and agreed this accounts update. **Management response** This was an agreed amendments to the accounts.	✓

Audit adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements. We are satisfied that these remain immaterial taking into account the further unadjusted misstatements in the 2019/20 year above.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Overprovision of operating expenses in the year We found an error where an operating expenditure accrual was overstated by £1,332.10. We assessed the potential impact of the error on total expenditure by calculating a potential extrapolation which assessed the maximum potential error to be £91k. As this is an estimated extrapolation we would not propose adjusting the accounts for this, and this is predominantly to give assurance that similar errors occurring in the operating expenditure population would not cause material misstatement.	(£91k)	£91k	(£91k)	This was an immaterial extrapolation
Unpaid leave accrual 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.	£206k	(£206k)	£206k	This was immaterial
Overall impact	**£115k**	**(£115k)**	**£115k**	

Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	43,242	TBC
Total audit fees (excluding VAT)	**£43,242**	**£TBC**

There is additional work which was necessary to be carried out during the audit and Value for Money work due to the added complexities of the impact of Covid-19. We are still completing this work and the extent of this fee will be discussed and proposed to the Chief Finance Officer. All proposed fee variations would be communicated to the Audit Committee and is subject to Public Sector Audit Appointments (PSAA).

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Certification of Housing Benefit Claim 2019/20	12,300	TBC
Total non- audit fees (excluding VAT)	**£12,300**	**£TBC**

We have not yet completed the work for this other service. We do not expect the final fee to differ from the proposed fees based on our estimate of the amount and complexity of the work involved.

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 2020 which comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, the, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement, Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the, the Group Balance Sheet and the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the EFA, Notes to the Core Statements, Policies and Judgements, Notes to the Housing Revenue Account Statement, Notes to the Collection Fund Statement and Notes to the Group Accounts. 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 2019/20.

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 2020 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; 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.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Chief Finance Officer and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's and Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's and Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

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 Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance 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.

In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the group's and Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the group's and Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority or group will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and property investments

We draw attention to Note 5 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's and group's land and buildings and the Authority's share of the pension fund's pooled property investments as at 31 March 2020. As, disclosed in note 5 to the financial statements the outbreak of Covid-19 has impacted global financial markets and market activity has been impacted, including property market activity such that capital and rental values may change rapidly in the short to medium term. A material valuation uncertainty was therefore disclosed in both the Authority's property valuer's report and the pension fund's pooled property investment valuation report. Our opinion is not modified in respect of this matter.

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the 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 Edition' 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.

Audit opinion

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 Statement of Accounts 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 Finance 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 arrangements 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 Finance Officer. The Chief Finance 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 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance 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 Finance 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 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, Finance and Governance 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. 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 April 2020, 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 2020.

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 April 2020, 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 2020.

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, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

[Date]