

Audit Committee Agenda

Thursday, 16 March 2017 at 6.00 pm

Council Chamber, Muriel Matters House, Breeds Place, Hastings, TN34 3UY.
Please enter the building via the Tourist Information Centre entrance.

For further information, please contact Emily Horne on 01424 451719 or email:
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		Page No.
1.	Declarations of Interest	
2.	Apologies for Absence	
3.	Minutes of the meeting held on 25 January 2017	1 - 8
4.	BDO Planning Report to the Audit Committee (Audit for the year ended 31 March 2017) <i>(Tom Davies, Chief Auditor)</i>	9 - 30
5.	Proposed Internal Audit Plan 2017/18 <i>(Tom Davies, Chief Auditor)</i>	31 - 36
6.	Chief Auditor's Summary Audit and Risk Report <i>(Tom Davies, Chief Auditor)</i>	37 - 40
7.	Notification of any additional urgent items (if any)	

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Agenda Item 3 Public Document Pack

AUDIT COMMITTEE

25 JANUARY 2017

Present: Councillors Rankin (Chair), Charman, Chowney and Sinden

51. DECLARATIONS OF INTEREST

None.

52. APOLOGIES FOR ABSENCE

Absence was noted for Councillor Webb.

53. MINUTES OF THE MEETING HELD ON 22 SEPTEMBER 2016

RESOLVED – (unanimously) that the minutes of the meeting held on 22 September 2016 be approved and signed by the Chair as a true record

54. EXTERNAL AUDITOR APPOINTMENT

The Assistant Director, Financial Services and Revenues, submitted a report to seek authorisation to opt into the national public sector scheme for the appointment of external auditors.

The report was presented by the Chief Auditor; he advised that there were two options for the appointment of the external auditors. The first option is for the Council to procure its own auditors which would require an auditor panel consisting of 3 independent panel members, costs and administration would apply, or to opt into the public sector arrangement, which will be less resource intensive and is the preferred option for the majority of local authorities.

In regard to the first option: the Council setting up a local trading company, Councillor Rankin asked what the effect will be on local trading companies being audited? The Chief Auditor advised that they would get the best deal locally as with the Foreshore Trust. The Assistant Director, Financial Services and Revenues added that the current process is to go to tender, costs for the audit of the Foreshore Trust is some £3,000p.a.

Councillor Rankin asked officers if the 5 year period was effective value for money and whether it is possible to withdraw from the scheme and to make our own arrangements if necessary? The Assistant Director, Financial Services and Revenues informed the committee that the Council would be locked into the agreement for 5 years.

Councillor Rankin asked if there were any projections on savings and were these guaranteed to be cost effective? The Assistant Director, Financial Services and Revenues said there had been significant reductions to date. The last tender exercise for the provision of external audit services saw the level of core audit fees for Hastings

AUDIT COMMITTEE

25 JANUARY 2017

Borough Council reduce in stages from some £107,000 in 2011/2012 to £46,000 currently. We are not expecting any future savings but are hoping for cost containment.

RESOLVED (unanimously) to recommend to Full Council that this Council opts in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors.

The reason for this decision was:

An external auditor for the audit of the accounts for 2018/2019 must be appointed before the end of 2017. The decision of Full Council is required.

55. TREASURY MANAGEMENT AND ANNUAL INVESTMENT STRATEGY 2017/18, INCLUDING QUARTERLY MONITORING REPORTS FOR 2017/18 REPORT

The Assistant Director, Financial Services and Revenues, submitted a report to consider the draft Treasury Management and Annual Investment Strategy and draw any concerns or recommendations to Cabinet and Council as appropriate, to ensure that there is an effective framework for the management of the Council's investments, cash flows and borrowing activities. The Council has £20.5million of debt, and investments which fluctuate between some £15million and £30million in the year.

There is a statutory requirement to determine, by full Council, the Treasury Management Strategy Statement, Minimum Revenue Provision (MRP) Policy and Annual Investment Strategy (2017/18) prior to the start of the new financial year.

The report was set out in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management.

The Assistant Director, Financial Services & Revenues presented his report, he advised of an amendment to the report title. The title should read Treasury Management and Annual Investment Strategy 2017/18, including quarterly monitoring reports for 2016/17. Not "...monitoring reports 2017/18" as stated in the title.

The Assistant Director, Financial Services & Revenues confirmed that members had attended the Treasury Management Seminar on 10th January 2017 facilitated by Richard Bason, Regional Director, Capita. He referred to the changes in this year's strategy and said that there will be potential to invest in property management funds. With higher authorised borrowing limits we can take forward the income generation policy and if we hold off asset sales and look at sites, we can borrow more in the short term while the interest rates are still at low level. We are underfunded at the moment effectively meaning we can borrow £10million pounds to bring us up to our credit ceiling limit. We are effectively borrowing from reserves so for example, if the pier arbitration result is not in our favour and we are instructed to pay up a significant amount of money; we will need to borrow quickly from the Public Works Loan Board (PWLB) in order to pay.

The significant changes in strategy are as follows:–

AUDIT COMMITTEE

25 JANUARY 2017

- A change in Authorised Borrowing limits; and
- Investment in property funds: - either through a company like Capita and a network of different investment companies, or alternatively;
 - CCLA who have funds under management from 160 authorities (churches, charities etc.) and are the choice investment company for the Foreshore Trust Charity

We are used to dealing with CCLA, therefore if there is a problem in funds, the owners of the fund have a larger say in what happens.

Councillor Sinden asked what the effect would be if the interest rates were to go up suddenly by, say, ½%. The Assistant Director, Financial Services and Revenues, replied that if the interest rates were to go up by ½%, investment interest would increase, HBC would be better off since it is currently borrowing at a low fixed term borrowing rates and so a ½% increase in interest rates would be reflected in a net overall increase to the Council.

Councillor Charman sought clarification on the completion of the land swap referred to on page 37 of the report, item No.27. The Assistant Director, Financial Services & Revenues said that the site referred to, related to a small area of land on the West Marina where the beach huts chalets are situated. The purpose is to swap the small area of land back into the Council's ownership and write off the £127,000 loan the Foreshore Trust have. An Independent valuation has been undertaken and the matter will be going to public consultation with the approval of the Charity Committee.

Councillor Rankin raised queries about recommendations 2 & 3 of the report. He asked what the difference was between the Church and Charity Local Authority Property fund (CCLA) to the option of going into the open market to invest into funds (globally and Capita) and wanted to know the difference in advantages and disadvantages of the two schemes?

The Assistant Director, Financial Services & Revenues advised that the CCLA scheme was marketed heavily at conferences. He said they have a relationship with Local Authorities as does the Foreshore Trust with them. They do not market this part of the proposed fund to other than local authorities. The disadvantage of one fund is it will not have a big reach of variants and hence could fluctuate in value. Other large investment companies could provide us with wider scope of investments. We would have a share in other funds, for example, offices/industrial units if thought these areas offered a better return in future. Similar organisations offer investment opportunities in property funds that could require more officer involvement. The Council would likely gain a little more investment income but with higher risk and reduced control.

There is comfort in knowing who you are investing in and there are a lot of schemes we are not allowed to invest in. The investment is for the long term as anything less than 5 years could result in a loss as markets swing up and down as they react to

AUDIT COMMITTEE

25 JANUARY 2017

external factors, e.g. Brexit. The advice is to only invest here if you think that you won't be spending the money within 5 years.

Care needs to be taken as investment in some types of external property fund see the return on investment come back as a capital receipt depending on how it is structured. Care should therefore be exercised to ensure the investment has got the right attributes to be counted as revenue funds. CCLA is such a scheme.

Councillor Rankin queried recommendation 2 and whether the Audit Committee were being asked to vote on which type of property fund? The Assistant Director, Financial Services & Revenues advised that the recommendation was broad for the committee to make their recommendation to Cabinet and Council. If you are happy with £2million, it is not split and goes with 1 organisation. It is not a massive amount to split, the alternative is two organisations to monitor. You are not spreading your risk. Recommendation No.3 asks if you are happy with the investment with CCLA. Delay in decision making, or are you happy to go with this fund?

Councillor Chowney suggested they simply agree to do both recommendations Nos. 2 and 3. He asked how did 4.5% return by the CCLA compare with other property funds. The Assistant Director, Financial Services & Revenues said it depends on what period. For last year range it was generally between 3% and 6%. It is a fairly narrow range as expected. CCLA has done well in the past even showing 22% return for one year previously. Overall, 4.5% return is not far below average.

Councillor Chowney asked if the ones that give higher returns are more risky? The Assistant Director, Financial Services & Revenues confirmed that the funds that give higher returns are generally more risky. However, a lot of due diligence into the CCLA has been carried out by other Councils. Hastings Borough Council is not at forefront and the market has expanded. Local Councils have invested £2million with CCLA and East Sussex has had up to £6million indicative they happy with level of risk. This gives opportunity to diversify and better return but it is comparably risky compared to having money in cash.

Councillor Charman sought clarification on borrowing. She asked what we should expect to change on Public Works Loan Board? In the long term do you see national government change to interest rates. The Assistant Director, Financial Services & Revenues said he proposed to close the £10million gap. While £10million is low for 2016/17, he is keen we borrow in future years. We expect to use the PWLB to borrow significant sums. If later the cost goes up, we will look at other Local Authorities to lend money to us, but this will incur fees. If the PWLB is taken over by HM Treasury, we will expect to see changes. Currently, the process is swift and following 1 phone call, the money is in our account within 2 days.

Councillor Chowney proposed the recommendation to the report be amended as follows:-

1. The Committee recommend to Cabinet/Council that the investment should be made wide with 1 or more property funds

AUDIT COMMITTEE

25 JANUARY 2017

2. The Committee recommend to Cabinet/Council that the preferred investment property fund should be CCLA.

Councillor Rankin sought clarification on the Officers report in regard to the direction of interest rates (pages 32, 39 & 42). He asked for confirmation of where the economy is within the interest rate cycle.

The Assistant Director, Financial Services & Revenues said interest rates are low for 3 to 5 years. We see interest rates begin to rise. Long term interest rates look set to rise at 0.2 and 0.3 percentage points in the longer term.

Councillor Rankin enquired why it appeared in the report that we were paying 4.80% per annum for one of the loans? The Assistant Director, Financial Services & Revenues said it had been taken out some years ago. It has been rescheduled in the past but to do it again would cost £3million. The reason for this was down to the PWLB rules changing without warning and the rate at which we could then reschedule the debt changed.

Councillor Rankin said that on the PWLB portfolio, there was an amount the council had loaned to Amicus Horizon. He said that we could lose money and that there are costs to administer the loan and issue statements, for example, officer time and so will we put on a margin to cover our costs as a Council? The Assistant Director, Financial Services & Revenues said it was agreed as value for Coastal Space. He pointed out that the Council has a share of ½ value of what is sold. The Council receives ½ value of any sales and Amicus Horizon is repaying us the grant money we've provided them with interest on top. Although it is set in Euro guidance that there will be a margin, these organisations don't fall into those categories.

The Assistant Director, Financial Services & Revenues said MRP is critical; some actions not making debt repayment, they believe go up in value. This makes sure. We still take on significant risk but it has to be affordable. You see the large figure in borrowing. Risk is when to take a scheme on and prepare to consider risk. Each scheme differs depending on time scale and what investing in.

RESOLVED (unanimously) that:

1. **The Committee recommend that the Council approve the Treasury Management Strategy, Minimum Revenue Provision (MRP) Policy and Annual Investment Strategy (2017/18);**
2. **The Committee recommend to Cabinet/Council that the investment should be made wide with 1 or 2 property funds;**
3. **The Committee recommend to Cabinet/Council that the preferred property fund should be CCLA (Church and Charity Local Authority Property Fund).**

The reason for this decision was:

The Council seek to minimise the costs of borrowing and maximise investment income whilst ensuring the security of its investments. The Council is seeking to increase

AUDIT COMMITTEE

25 JANUARY 2017

opportunities for income generation, particularly where there are benefits to the residents of Hastings in doing so, and this will involve the Council in taking on additional borrowing. The sums involved are large and the assumptions made play an important part in determining the annual budget. Compliance with the CIPFA Code of Practice represents best practice and ensures compliance with statutory requirements.

The Council has the ability to diversify its investments into other Property Funds and should consider carefully the level of risk against reward against a background of low interest rates being forecast for some years ahead. Such an investment would help to close the gap in the budget in the years ahead and thus help to preserve services.

56. ANNUAL AUDIT LETTER 2015/16

The Assistant Director, Financial Services and Revenues, presented a report to formally confirm that the Annual Audit Letter 2015/16 has been noted by the Audit Committee.

The purpose of the Annual Audit Letter 2015/16 was to consider the matters raised by the external auditors (BDO). This was circulated to the Audit Committee on 15th November 2016 and posted to the Council's website for the public and members to view.

RESOLVED (unanimously) that the report be noted.

The reason for this decision was:

The Annual Audit Letter is for all members and posted to the Council's website. It is of particular interest to those charged with governance.

57. CHIEF AUDITOR'S SUMMARY AUDIT AND RISK REPORT

The Chief Auditor presented a report to inform the Audit Committee of the key findings from the recent Section 106 Agreements audit.

The purpose is to ensure the council has the right processes and procedures for monitoring each agreement and ensuring complete accurate and timely receipt of all income due.

The review had found that the controls in place were good and worked effectively, no significant audit concerns were raised.

Councillor Charman sought clarification on what areas were being referred to in the report. The Chief Auditor said that no specific area had been selected but that the review covered all 43 current agreements. The whole of the control spreadsheet had complied with Finance's figures and the difference that had been highlighted and investigated had been over two planning applications. The Assistant Director, Financial Services and Revenues advised that the money needs to be spent within the time scale otherwise it is lost. He was pleased to get a good result.

AUDIT COMMITTEE

25 JANUARY 2017

RESOLVED (unanimously) that the Audit Committee accepts the report

The reason for the decision was: To monitor the levels of control within the organisation.

58. NOTIFICATION OF ANY ADDITIONAL URGENT ITEMS (IF ANY)

None.

(The Chair declared the meeting closed at. 7.09 pm)

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Agenda Item 4



Report to: Audit Committee

Date of Meeting: 16 March 2017

Report Title: BDO Audit Plan to the Audit Committee (Audit for the year ended 31 March 2017)

Report By: Tom Davies
Chief Auditor

Purpose of Report

To inform members of BDO's audit plan for the audit of the Council's accounts and Value for Money arrangements. The attached report from BDO highlights the risk based approach to the audit and the main risks they have identified. It also shows the proposed audit fees.

Recommendation(s)

1. To accept the External Auditor's Audit Plan.

Reasons for Recommendations

The Audit Committee, as required by the Constitution, receives and notes the External Auditor's Audit Plan on behalf of the Council.

Introduction

1. This plan summarises the proposed audit work for the year for Hastings Borough Council. It highlights the significant risks that impact on the audit and details the planned work in response to those risks. It also provides a timetable for key outputs of the work undertaken.
2. The plan shows the proposed audit fees.
3. A senior manager from BDO will attend the Audit Committee meeting to explain the contents of the plan.
4. The plan is attached at Appendix A of this report.

Wards Affected

None

Policy Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	No
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No
Anti-Poverty	No

Additional Information

Appendix A - BDO Audit Plan to the Audit Committee
(Audit for the year ended 31 March 2017) .

Officer to Contact

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HASTINGS BOROUGH COUNCIL

AUDIT PLAN TO THE AUDIT COMMITTEE
Audit for the year ending 31 March 2017

8 March 2017

CONTENTS

INTRODUCTION	1
YOUR BDO TEAM	2
ENGAGEMENT TIMETABLE	3
AUDIT SCOPE AND OBJECTIVES.....	4
MATERIALITY	5
GENERAL AUDIT STRATEGY	6
KEY AUDIT RISKS AND OTHER MATTERS	8
INDEPENDENCE	13
FEES	14
APPENDIX I: MATERIALITY.....	15

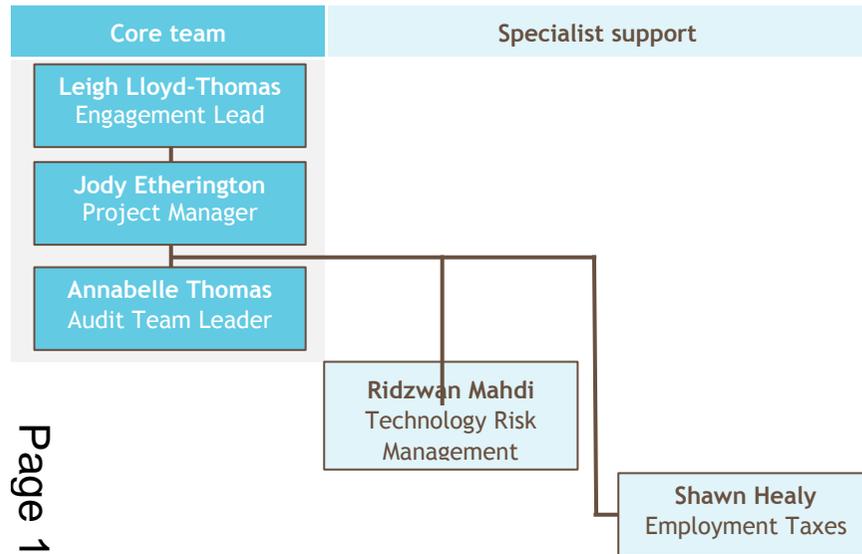
INTRODUCTION

PURPOSE AND USE OF OUR REPORT

The purpose of this report is to highlight and explain the key issues which we believe to be relevant to the audit of the financial statements and use of resources of Hastings Borough Council (the 'Council') for the year ending 31 March 2017. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process. Planning is an iterative process and our plans, reflected in this report, will be reviewed and updated as our audit progresses.

This report has been prepared solely for the use of the Audit Committee. In preparing this report, we do not accept or assume responsibility for any other purpose, or to any other person, except when expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so entirely at their own risk.

YOUR BDO TEAM



Name	Contact details	Key responsibilities
Leigh Lloyd-Thomas Engagement Lead	Tel: 020 7893 2616 leigh.lloyd-thomas@bdo.co.uk	Oversee the audit and sign the audit report
Jody Etherington Project Manager	Tel: 01473 320790 jody.etherington@bdo.co.uk	Management of the audit
Kirsty Slater Audit Senior	Tel: 020 7893 3794 kirsty.slater@bdo.co.uk	Day to day supervision of the on-site audit
Ridzwan Mahdi Technology Risk Assistant	Tel: 020 7893 3126 ridzwan .x.mahdi@bdo.co.uk	Manage IT review for audit purposes
Shawn Healy Employment Tax Principal	Tel: 020 7893 2433 shawn.healy@bdo.co.uk	Manage employment tax review for audit purposes

Page 14

Leigh Lloyd-Thomas is the engagement lead and has the primary responsibility to ensure that the appropriate audit opinion is given on the financial statements.

In meeting this responsibility, he will ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that:

- the financial statements are free from material misstatement, whether due to fraud or error
- the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

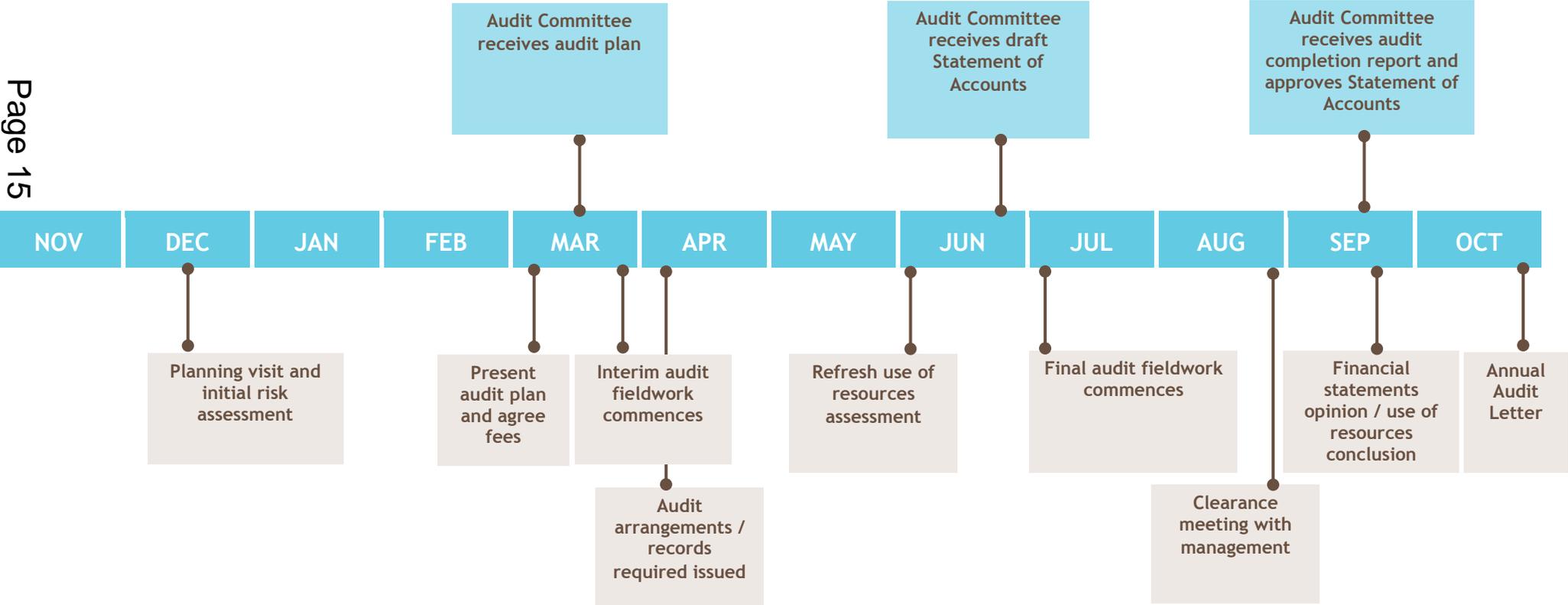
He is responsible for the overall quality of the engagement.

ENGAGEMENT TIMETABLE

TIMETABLE

The timeline below identifies the key dates and anticipated meetings for the production and approval of the audited financial statements and completion of the use of resources audit.

← CONTINUOUS COMMUNICATIONS →



AUDIT SCOPE AND OBJECTIVES

SCOPE AND OBJECTIVES

Our audit scope covers the audit in accordance with the National Audit Office (NAO) Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the NAO.

To form an opinion on whether:

FINANCIAL STATEMENTS		OTHER INFORMATION	WGA CONSOLIDATION	USE OF RESOURCES
1	The financial statements give a true and fair view of the financial position of the authority and its expenditure and income for the period in question.	3	4	5
<p>2 The financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other directions.</p>		<p>Other information published together with the audited financial statements is consistent with the financial statements (including the governance statement).</p>	<p>The return required to facilitate the preparation of Whole of Government Accounts (WGA) consolidated accounts is consistent with the audited financial statements.</p>	<p>The authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p>

ADDITIONAL POWERS AND DUTIES

6	<p>Where appropriate: To consider the issue of a report in the public interest. To make a written recommendation to the authority.</p>	7	<p>To allow electors to raise questions about the accounts and consider objections. Where appropriate, to apply to the court for a declaration that an item of account is contrary to law. Where appropriate, to consider whether to issue an advisory notice or to make an application for judicial review.</p>
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MATERIALITY

COUNCIL MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Hastings Borough Council	£1,850,000	£35,000

Please see Appendix I for detailed definitions of materiality and triviality.

Planning materiality for the Council has been based on 2% of the prior year gross expenditure. This will be revisited when the draft financial statements are received for audit.

The clearly trivial amount is based on 2% of the materiality level (rounded down to the nearest £5,000).

OVERALL AUDIT STRATEGY

We will perform a risk based audit on the Council's financial statements and use of resources

This enables us to focus our work on key audit areas.

Our starting point is to document our understanding of the Council's business and the specific risks it faces. We discussed the changes to the business and management's own view of potential audit risk during our planning visit in order to gain an understanding of the Council's activities and to determine which risks impact on our audit. We will continue to update this assessment throughout the audit.

For the financial statements audit, we also confirm our understanding of the accounting systems in order to ensure their adequacy as a basis for the preparation of the financial statements and that proper accounting records have been maintained.

For the use of resources audit, we consider the significance of business and operational risks insofar as they relate to 'proper arrangements', including risks at both sector and Council-specific level, and draw on relevant cost and performance information as appropriate.

We then carry out our audit procedures in response to audit risks.

Risks and planned audit responses

For the financial statements audit, under International Standard on Auditing 315 "Identifying and assessing the risks of material misstatement through understanding the entity and its environment", we are required to consider significant risks that require special audit attention.

In assessing a risk as significant, we exclude the effects of identified controls related to the risk. The ISA requires us at least to consider:

- Whether the risk is a risk of fraud
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention
- The complexity of transactions
- Whether the risk involves significant transactions with related parties

- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

For the use of resources audit, the NAO has provided information on potential significant risks such as:

- Organisational change and transformation
- Significant funding gaps in financial planning
- Legislative or policy changes
- Repeated financial difficulties or persistently poor performance
- Information from other inspectorates and review agencies suggesting governance issues or poor service performance.

We consider the relevance of these risks to the Council in forming our risk assessment and audit strategy.

Internal audit

We will ensure that we maximise the benefit of the overall audit effort carried out by internal audit and ourselves, whilst retaining the necessary independence of view.

We understand that internal audit reviews have been undertaken across a range of accounting systems and governance subjects. We will consider these reports as part of our audit and whether to place any reliance on internal audit work as evidence of the soundness of the Council's control environment.

OVERALL AUDIT STRATEGY

Continued

Fraud risk assessment

We have discussed with management its assessment of the risk that the financial statements may be materially misstated due to fraud and the processes for identifying and responding to the risks of fraud.

Management believe that the risk of material misstatement due to fraud in the financial statements is low. We are informed by management that there have not been any cases of significant or material fraud to their knowledge, and that controls are in operation to prevent or detect material fraud.

The Audit Committee has oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks. This is discharged through reviews undertaken by internal audit.

To corroborate the responses to our inquiries of management, please let us know if there are any significant or material actual, suspected or alleged instances of fraud of which you are aware.

KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Management override	<p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.</p> <p>Under auditing standards, there is a presumed significant risk of management override of the system of internal controls.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. • Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. • Obtain an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual. 	Not applicable.
Revenue recognition	<p>Under auditing standards there is a presumption that revenue recognition presents a fraud risk. For local authorities, the risks can be identified as affecting the existence of income.</p> <p>In particular, we consider there to be a significant risk in respect of existence (recognition) of revenue and capital grants that are subject to performance and / or conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES).</p> <p>We also consider there to be a significant risk in relation to the existence of fees and charges recorded in the CIES.</p>	<p>We will test a sample of grants subject to performance and / or conditions to confirm that conditions of the grant have been met before the income is recognised in the CIES.</p> <p>We will test a sample of fees and charges to ensure income has been recorded in the correct period and that all income that has been recorded should have been recorded.</p>	Government grant funding will be agreed to information published by the sponsoring Department.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Pension liability assumptions</p> <p>Page 21</p>	<p>The net pension liability comprises the Council’s share of the market value of assets held in the East Sussex Pension Fund and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p>	<p>We will contact the auditors of the East Sussex Pension Fund to gain assurance over the controls in place for providing accurate membership data to the actuary.</p> <p>We will review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.</p>	<p>We will use a PwC consulting actuary report provided to auditors for the review of the methodology of the actuary and reasonableness of the assumptions used.</p>
<p>Valuation of land, buildings and investment properties</p>	<p>Local authorities are required to ensure that the carrying value of land, buildings and investment properties are not materially different to existing use value for operational assets, or fair value for surplus assets and investment properties at the balance sheet date.</p> <p>The Council appoints external valuers to value its land and buildings assets on a rolling 5 year basis. Significant assets, investment properties, and assets where there is evidence of a material change in value are valued annually.</p> <p>There is a risk over the valuation of land, buildings and investment properties where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at year-end.</p>	<p>We will review the instructions provided to the valuer and review the valuer’s skills and expertise in order to determine if we can rely on the management expert.</p> <p>We will confirm that the basis of valuation for assets valued in year is appropriate based on their usage. We will confirm that an instant build modern equivalent asset basis has been used for assets valued at depreciated replacement cost.</p> <p>We will review valuation movements against indices of price movements for similar classes of assets and follow up valuation movements that appear unusual against indices.</p>	<p>We will review independent data that shows indices and price movements for classes of assets against the valuation movements applied by the Council.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Valuation of heritage assets	<p>Where heritage assets are measured at valuation, the carrying amount shall be reviewed with sufficient frequency to ensure the valuations remain current.</p> <p>Heritage Assets are valued by an external valuer by reference to insurance valuations and are also revalued using a rolling programme.</p> <p>There is a risk over the valuation of heritage assets where valuations are not undertaken with sufficient frequency.</p>	<p>We will review the instructions provided to the valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert.</p> <p>We will confirm that the basis of valuation for the various classes of heritage assets valued in year is appropriate.</p>	Not applicable.
Allowances for non-collection of receivables	<p>The Council makes allowance for the non-collection of receivables relating to housing benefit overpayments, council tax, Non Domestic Rates (NDR) and trade receivables. These allowances are management estimates based on historic experience, judgement and benchmarking against other similar authorities.</p> <p>There is a risk that the assumptions used may not be appropriate, which could lead to a misstatement of the allowance made.</p>	We will review the provision model for significant income streams and debtor balances to assess whether it appropriately reflects historical collection rates by age of debt or arrears.	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Changes in presentation of the financial statements</p> <p>Page 23</p>	<p>The Code requires a change to the presentation of some areas of the financial statements. This includes:</p> <ul style="list-style-type: none"> • Change to the format of the Comprehensive Income and Expenditure Statement (CIES) • Change to the format of the Movement in Reserves Statement (MIRS) • New Expenditure and Funding Analysis (EFA) note • Change to the Segmental Reporting note • New Expenditure and Income analysis note. <p>These changes will also require the 2015/16 CIES to be restated using the new format.</p> <p>There is a risk that these presentational changes are not correctly applied in the financial statements.</p>	<p>We will review the draft financial statements and check these against the CIPFA Disclosure Checklist to ensure that all of the required presentational changes have been correctly reflected within the financial statements.</p> <p>We will confirm that the analysis by service in the CIES is consistent with the internal reporting within the Council.</p> <p>We will review the restatement of 2015/16 figures under the new format, comparing the restated figures to the underlying audit trail, and consider the appropriateness of any assumptions or estimates applied in this process.</p>	<p>Not applicable.</p>
<p>Consideration of related party transactions</p>	<p>We need to consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of the accounting standards.</p>	<p>We will document the related party transactions identification procedures in place and review relevant information concerning any such identified transactions.</p> <p>We will discuss with management and review Councillor and Senior Management declarations to ensure there are no potential related party transactions which have not been disclosed. This is something we will require you to include in your management representation letter to us.</p>	<p>We will carry out Companies House searches to identify any undisclosed interests.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - USE OF RESOURCES

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p style="writing-mode: vertical-rl; transform: rotate(180deg);"> Sustainable Finance Page 24 </p>	<p>The 2016/17 revenue budget and the three year Forward Plan were updated in February 2017. The Council is forecasting a balanced budget for 2016/17 and 2017/18, with unfunded shortfalls of £726,000 and £1.2 million in 2018/19 and 2019/20 respectively. In addition to these shortfalls, the Council is planning to use a net total of £7.6 million from its earmarked reserves for revenue purposes over the 4 year period, including £2.2 million in 2016/17 and £2.3 million in 2017/18.</p> <p>The Council's Priority Income and Efficiency Reviews (PIER) model is used to identify savings and look for opportunities to maximise revenue. This has identified total savings of £1.8 million over the three year life of the MTFS, which are already taken into account within the funding shortfalls described above.</p> <p>It is clear that the Council faces a significant challenge to close the funding gap and this is likely to require difficult decisions to be made around service provision and alternative delivery models.</p> <p>The current rate at which earmarked reserves are being drawn down is not sustainable in the medium term; although we acknowledge that certain reserves, such as the transition reserve, have been put aside specifically to assist the Council. The pace of change required to deliver a sustainable financial position will again present a challenge.</p>	<p>We will review the assumptions used in the MTFS and assess the reasonableness of the cost pressures and future income levels which have been forecast.</p> <p>We will monitor the delivery of the budgeted savings in 2016/17 and the plans to reduce services costs and increase income from 2017/18.</p>	<p>Where relevant, we will refer to external benchmarking data to support the assumptions used within the MTFS and forward budgeting process.</p>

INDEPENDENCE

INDEPENDENCE

Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to ‘those charged with governance’. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to have a bearing on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that engagement leads are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the engagement lead and the audit staff. This document considers such matters in the context of our audit for the period ended 31 March 2017.

We have not identified any potential threats to our independence as auditors. We do not provide any non-audit services.

We confirm that the firm complies with the Financial Reporting Council’s Ethical Standards for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired. These policies include partner and manager rotation. The table below sets out the length of involvement of key members of the audit team.

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

ENGAGEMENT TEAM ROTATION

SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED
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Leigh Lloyd-Thomas - Engagement lead	3
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Jody Etherington - Project manager	3
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FEES

FEES SUMMARY

Our proposed fees, excluding VAT, for the year ending 31 March 2017 are:

	2016/17	2015/16
	£	£
Code audit fee	46,418	46,418
Certification fee (Housing benefits subsidy)	8,844 ⁽¹⁾	8,844 ⁽²⁾
TOTAL FEES	55,262	55,262

(1) Subject to confirmation of scale fee by PSAA Ltd

(2) PSAA scale fee - this work is still ongoing and any fee variations will be discussed with PSAA and the Council separately

Invoices in respect of the audit fee will be raised in four equal instalments on a quarterly basis throughout the 2016/17 financial year, following which our firm's standard terms of business state that full payment is due within 14 days of receipt of invoice.

Certification of the housing benefits subsidy claim will be billed on completion of the work.

Our fee is based on the following assumptions

The complete draft financial statements and supporting work papers will be prepared to a standard suitable for audit. All balances will be reconciled to underlying accounting records.

Key dates will be met, including receipt of draft accounts and working papers prior to commencement of the final audit fieldwork.

We will receive only one draft of the Statement of Accounts prior to receiving the final versions for signing.

Within reason, personnel we require to hold discussions with will be available during the period of our on-site work (we will set up meetings with key staff in advance).

APPENDIX I: MATERIALITY

CONCEPT AND DEFINITION

- The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.
- We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.
- Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):
 - Narrative disclosure e.g. accounting policies, going concern
 - Instances when greater precision is required (e.g. senior management remuneration disclosures).

International Standards on Auditing (UK & Ireland) also allow the auditor to set a lower level of materiality for particular classes of transaction, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

CALCULATION AND DETERMINATION

- We have determined materiality based on professional judgement in the context of our knowledge of the authority, including consideration of factors such as sector developments, financial stability and reporting requirements for the financial statements.
- We determine materiality in order to:
 - Assist in establishing the scope of our audit engagement and audit tests
 - Calculate sample sizes
 - Assist in evaluating the effect of known and likely misstatements on the financial statements.

APPENDIX I: MATERIALITY

Continued

REASSESSMENT OF MATERIALITY

- We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.
- Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope. If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.
- You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

UNADJUSTED ERRORS

Page 28

In accordance with auditing standards, we will communicate to the Audit Committee all uncorrected misstatements identified during our audit, other than those which we believe are 'clearly trivial'.

Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.

- We will obtain written representations from the Audit Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.
- There are a number of areas where we would strongly recommend/request any misstatements identified during the audit process are adjusted. These include:
 - Clear cut errors whose correction would cause non-compliance with statutory requirements, management remuneration, other contractual obligations or governmental regulations that we consider are significant.
 - Other misstatements that we believe are material or clearly wrong.

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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Agenda Item 5



Report to: Audit Committee

Date of Meeting: 16 March 2017

Report Title: Proposed Internal Audit Plan 2017/18

Report By: Tom Davies
Chief Auditor

Purpose of Report

To consider the proposed internal audit plan for 2017/18.

Recommendation(s)

- 1. That the Audit Committee approves the Internal Audit Plan 2017/18**

Reasons for Recommendations

To ensure that proper financial management arrangements and controls are in place and operating effectively in the Council.

Audit Committee approval of the Internal Audit plan provides clear authority for Internal Audit to discharge the assignments listed therein and enable monitoring of the efficiency and effectiveness of Internal Audit.

Introduction

1. The audit programme for 2017/18 has been produced after communication with Assistant Directors, External Audit and reference to the Council's agreed priorities. It includes both traditional areas of work and scope for flexibility in a changing work environment.
2. The approach to the audit of the fundamental financial systems changed eleven years ago following the introduction of International Auditing Standards (IAS) adopted in Local Government in 2006. It remains a key requirement and the main aspect of this work is the need to identify, document and test fundamental financial systems in a particular way. Financial audit still remains the emphasis in the plan.
3. The Operational Risk Registers have been referred to.
4. The plan is developed in relation to planning assumptions reviewed annually and made in accordance with available days.
5. The plan is spread across, financial, operational, value for money and computer auditing. Information Communications Technology also receives a Public Service Network (PSN) audit by the Cabinet Office every year.
6. The specific terms of reference for each audit will be agreed with the relevant Directors and Assistant Directors before commencement of each assignment.
7. As in previous years, audit carries out a lot of ad-hoc work, some of which has and will continue to be significant. In 2017/2018, Internal Audit , will for example:
 - Be involved in the Postal Elections
 - Audit contract final accounts
 - Perform an aspect of Ethical auditing
 - Progress Controls Assurance Mapping

	Fundamental and Financial Audits	Risk Reviews, Follow-up and Other
April	Car Park Machines (new coinage)	Policy documentation work
May	NFI (Creditors/Payroll/Insurance /Licensing)	
June	Housing Benefit	Housing Benefit – Grant Subsidy Work
July	Council Tax Reduction	
August	Debtors	
September	European Grant Work	
October	Non-Domestic Rates (NDR)	
November	Syrian Refugees Financial processes	Ongoing follow-up audit of: CCC/TIC Stock Control and Homelessness
December	Emerging risks (to be advised)	Value for Money work (to be advised)
January	International Auditing Standards Compliance work covering all fundamental financial controls	Emerging risks (to be advised)
February		Cyber Risks
March		Annual Reporting – Annual Governance Statement, Audit Committee Report to Council and Annual Audit Plan

Assignment	Reason	Outline Scope
Car Park Machines (new coinage)	Management request	To ensure the car park machines will accept the new pound coin without disruption to optimal collection frequency or other cash collection processes
NFI Creditors/Payroll/ Insurance/Licensing	Cyclical regulatory: Expected by Cabinet Office as part of commitment to anti-fraud measures	To investigate the high risk matches
Policy Documentation work	Audit request	To ensure audit and audit related policies and documentation are up to date and current. To include; Audit Committee Terms of Reference, Anti-fraud confidential reporting policy, Anti-bribery and Anti-Money Laundering policies, Sustainable Procurement Policy, Financial Operating Procedures and the Transparency Agenda (particularly competitiveness of internal services).
Housing Benefit	Cyclical regulatory - Expected by External Audit	Comprehensive programme as per programme carried out in previous years
Council Tax Reduction	Cyclical regulatory - Expected by External Audit	Comprehensive programme as per programme carried out in previous years
Housing Benefit – Grant Subsidy Work	Cyclical regulatory	Comprehensive audit of the HB Grant Subsidy to be carried out in accordance with the DWP audit instructions
Debtors	Cyclical regulatory - Expected by External Audit	Comprehensive programme as per programme carried out in previous years
European Grant Work	Senior management request as in part attracts more funding	Financial audit of schemes

Non-Domestic Rates (NDR)	Cyclical regulatory - Expected by External Audit	Comprehensive programme as per programme carried out in previous years
Syrian Refugees Financial Processes	Management request	To assess the adequacy of cash controls and that the allowances given out can be completely accounted for and to also ensure that the Council fully appreciates the legislation of it
Ongoing follow-up of CCC/TIC Stock Control and follow-up of Homelessness	Audit request - embedding control	Continuation of ongoing work
Cyber risks	Management request	To review our controls over the prevention and detection of latest cyber risks including the adequacy of the risk assessment
IAS Compliance work covering all fundamental financial controls	Cyclical regulatory: External Audit requirement.	Carried out in accordance with the timescales set and with the audit programmes provided by External Audit.

Wards Affected

None

Policy Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	No
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No
Anti-Poverty	No

Additional Information

The following internal documents were used:

Operational Risk Register
Planning assumptions
Cyclical audit frequency document
Resource planning paper

Officer to Contact

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Agenda Item 6



Report to: Audit Committee

Date of Meeting: 16 March 2017

Report Title: Chief Auditor's Summary Audit and Risk Report

Report By: Tom Davies
Chief Auditor

Purpose of Report

To inform the Audit Committee of the key findings from the Payroll audit.

Recommendation(s)

- 1. That the Audit Committee accepts the report.**

Reasons for Recommendations

To monitor levels of control within the organisation.

Summary Report
Report to Audit Committee
Payroll

Audit Conclusion

Overall Audit Assessment: A – Good.

Controls are in place and are working effectively. There are no significant audit concerns.

Key Findings

The Payroll system is administered effectively and efficiently.

The Hastings site has been used as a centre of good practice by Midland-Trent, who produces iTRENT, and new potential customers are recommended to visit the site.

The Payroll is processed through iTRENT which is an integrated human resources and payroll system. The system is one comprehensive staffing database which is held, administered and controlled within the Payroll section.

The upgraded system has more functionality and is fully utilised for greater work efficiency.

There are systems operating and back up arrangements in place to ensure the payroll function is correctly performed.

Management Response

We agree with the report.

Wards Affected

None

Policy Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	No
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No
Anti-Poverty	No

Additional Information

-

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