

AGENDA ITEM NO: 6

AUDIT COMMITTEE

26 June 2007

REPORT OF THE AUDIT COMMITTEE

Report to: Audit Committee

Date: 26 June 2007

Report from: Chief Auditor

Title of report: **External Audit: Annual Audit and Inspection Plan**

Purpose of report: To inform the committee of the audit and inspection arrangements proposed by Pannell, Kerr, Forster (PKF) and the Audit Commission

Recommendations: That the Audit Committee approves external audit's Audit and Inspection Plan



Accountants &
business advisers

Hastings Borough Council

Annual Audit and Inspection Plan

2007/08

May 2007

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1 Executive summary

1.1 PKF was appointed by the Audit Commission to undertake the external audit of Hastings Borough Council with effect from 1 April 2007. This plan has been developed by PKF after discussion with management and your outgoing auditors. The inspection work included in the plan has been agreed by your Audit Commission Relationship Manager, who will continue to work with the Council. The combined plan is based on our risk-based approach to audit planning and the requirements of Comprehensive Performance Assessment (CPA). It reflects:

- audit and inspection work specified by the Audit Commission for 2007/08
- current national risks relevant to your local circumstances
- your local risks and improvement priorities.

1.2 Your Relationship Manager will continue to help ensure further integration and co-ordination with the work of other inspectorates.

1.3 Because your outgoing auditor has not yet completed the audit of the Council for 2006/07, the audit planning process for 2007/08, including the risk assessment, will continue as the year progresses. The information and fees in this plan will be kept under review and updated as necessary.

Responsibilities

1.4 We comply with the statutory requirements governing our audit and inspection work, in particular:

- the Audit Commission Act 1998
- the Local Government Act 1999 (best value inspection and audit)
- the Code of Audit Practice.

1.5 The Code of Audit Practice (the Code) defines auditors' responsibilities in relation to:

- your Statement of Accounts (including the statement on internal control [SIC])
- your arrangements for securing economy, efficiency and effectiveness in its use of resources.

1.6 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the Council. The Audit Commission has issued a copy of the Statement to every audited body.

1.7 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end. Our audit work is undertaken in the context of these responsibilities.

1.8 The scope of the audit is determined by the Audit Commission's "Code of Audit Practice", which covers two key areas – Accounts and "Use of Resources". The detailed Code audit approach is unchanged from 2006/07.

Fees

1.9 Overall fees show an increase on the previous year, this being mainly a result of an inflationary increase. The discount from the mid point of the planned audit fee is 21%.

1.10 We will monitor the budget position in 2007/08 and discuss with the Council if a further change in audit fees becomes necessary. The total audit and inspection fee is summarised below.

	2006/07	2007/08
Audit	83,263**	89,622
Inspection	6,280	6,490
Total audit and inspection	89,543	96,112

** Excludes Whole of Government Accounts (WGA) fee

Key outputs

1.11 The key audit and inspection outputs for Members are shown below. We will also provide management with more detailed reports upon the completion of our work as necessary.

Output	Expected timing	Completed by
Audit and Inspection Plan	May 2007	PKF/Audit Commission
Report on use of resources and assessment scores	December 2007	Audit Commission
Report on Data Quality (Stage 1, management arrangements)	September 2007	PKF
Annual Governance Report (ISA 260)	September 2008	PKF
Auditor's Opinion, covering: <ul style="list-style-type: none"> • Statement of Accounts • Value for money conclusion 	September 2008	PKF
BVPP Opinion	December 2008	PKF
Annual Audit and Inspection Letter	December 2008	PKF/Audit Commission
Inspection		
Direction of Travel statement	December 2008	Audit Commission

2 Introduction

- 2.1 This joint Audit and Inspection Plan sets out the audit and inspection work proposed to be undertaken in 2007/08 by PKF and the Audit Commission.
- 2.2 This Plan has been drawn up from our risk based approach to audit planning and planning meetings held with you. It reflects the Audit Commission's elements of the co-ordinated and proportionate audit and inspection programme.
- 2.3 As the audit for 2006/07 has not yet been completed, the audit planning process for 2007/08, including the risk assessment, will continue as the year progresses, and the information and fees in this plan will be kept under review and updated as necessary. Any significant changes to the Plan will be reported to the Audit Committee and discussed with the Chief Executive and the Director of Finance.
- 2.4 Your Relationship Manager will be responsible for ensuring further integration and co-ordination with the work of other inspectorates.
- 2.5 Set out below are some key details related to the process supporting the preparation of this audit plan.

Audit work - PKF

- 2.6 The work covered by this plan is:
- review of the core financial systems used in preparing the accounts to 31 March 2008
 - review of the Statement of Accounts prepared for the year ending 31 March 2008
 - review of the Best Value Performance Plan (BVPP), and supporting Best Value Performance Indicators (BVPIs) specified by the Audit Commission and based on an assessment of risk, as published in June 2007
 - work on use of resources issues in the period 1 April 2007 to 31 March 2008, including local and cross-cutting reviews
 - data quality assessments against the Audit Commission's Key Lines of Enquiry, and spot checks of Commission-selected BVPIs and non-BVPIs influencing CPA, for the year ended 31 March 2007.
- 2.7 Our principal objective as your Appointed Auditor is to carry out an audit that is tailored to focus on the specific financial and operational risks you face and meets the requirements of the Code.

Audit work – Audit Commission

- 2.8 The work covered by this plan is:
- Use of Resources assessments against the Audit Commission's Key Lines of Enquiry for the year ended 31 March 2007. (The 2007 KLOE).

CPA and Inspection work – Audit Commission

- 2.9 This Plan also sets out the inspection work that is proposed in 2007/08, which includes an assessment of how well the Council is improving, as summarised at section 5 of this Plan and in Appendix B.
- 2.10 Discussions have been, and will continue to be, held between auditors and inspectors to ensure that the audit and inspection work, in this Plan, continues to be co-ordinated and targeted at your key areas for improvement.

Assessing risks

- 2.11 We are committed to targeting our work where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means making sure that our work is co-ordinated with the work of inspectors and other regulators, and that our work helps you to improve.
- 2.12 Our risk assessment process starts with the identification of the significant financial and operational risks applying at the Council with reference to:
- our cumulative knowledge of the Council
 - planning guidance issued by the Audit Commission
 - the specific results of previous and ongoing audit work
 - discussions with Council officers
 - liaison with internal audit
 - the results of other review agencies' work where relevant.
- 2.13 For each of the significant risks identified in relation to the use of resources work, we consider the arrangements put in place by the Council to mitigate the risk, and plan our work accordingly.

3 Accounts

3.1 The Code of Audit Practice requires us to provide an opinion on whether your Statement of Accounts “presents fairly” your financial position, and has been prepared properly, in accordance with relevant legislation and applicable accounting standards.

3.2 In carrying out this work we consider:

- the extent to which your accounting and internal control systems are a reliable basis from which to prepare the Statement of Accounts
- the robustness of your Statement of Accounts preparation processes

3.3 We also undertake analytical procedures, test transactions and balances and consider the adequacy of the disclosures in your Accounts.

Internal controls and key financial systems

3.4 International Standards in Auditing (UK and Ireland) require auditors to obtain a detailed understanding of an organisation, its environment, risk assessment processes, the information systems, internal controls, and monitoring activities. This must be sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error and be sufficiently well documented to enable the auditor to design and perform further audit procedures based on identified risks.

3.5 This requires additional work to be undertaken to identify and understand the internal controls, evaluate the design of the control and determine whether it has been implemented. The evaluation of the design of a control involves considering whether it, individually or in combination with other controls, is capable of effectively preventing, or detecting and correcting, material misstatements.

3.6 Where the audit intends to rely on identified controls to reduce risk or the level of substantive testing otherwise required, the auditor must also undertake tests of the operating effectiveness of the relevant controls. The core financial systems upon which the accounts are based will therefore require additional testing and review in order to arrive at our opinion on the Statement of Accounts.

Working with Internal Audit

3.7 The Audit Commission expects that appointed auditors and Internal Audit departments have been working together to ensure that audit work is most effectively targeted in well-managed authorities, thereby minimising duplication and the overall level of audit resource input.

3.8 We have planned the 2007/08 audit on the basis that we will be able to place full reliance on the work of Internal Audit, the relevant areas of this coverage are set out in our fee assumptions, paragraph 6.10. This assumption is based upon the preliminary discussions with your outgoing auditors in respect of arrangements for 2006/07, the Internal Audit department regarding proposed work for 2007/08 and consideration of your Statement on Internal Control for 2005/06. We will however need to undertake a detailed review of Internal Audit to assess the extent of compliance with the CIPFA Code of Practice for Internal Audit in Local Government published in 2006. This will allow us to assess the extent to which we can continue to rely on the work of Internal Audit.

Fraud risk assessment

3.9 Under ISA240, we have a responsibility to consider specifically the potential risk of material misstatement of your Statement of Accounts as a result of fraud and error, including the risk of fraudulent financial reporting.

- 3.10 The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect fraud and corrupt practices lies with management and 'those charged with governance'.
- 3.11 In order to identify the fraud risks, and the controls you have put in place on which we will seek to place reliance to mitigate those risks, we will:
- discuss your anti fraud and corruption arrangements with officers and 'those charged with governance'
 - consider the extent to which the work of Internal Audit is designed to detect material misstatements in the Accounts arising through fraud
 - make inquiries regarding instances of actual fraud you have identified
 - consider any material unusual or unexpected relationships that have been identified in performing analytical procedures.
- 3.12 For all residual fraud risks, and for any actual frauds that have been identified and we have been informed of, we will consider the possible impact on your Accounts and our audit programme.

Accounts preparation

- 3.13 We will consider the adequacy of your arrangements for closing down the ledger and producing an accurate, timely and comprehensive Statement of Accounts and supporting working papers. We will provide officers with a detailed list of schedules and working papers required for the audit.

Statement on Internal Control

- 3.14 We will review your Statement on Internal Control to assess whether it has been presented in accordance with guidance, is adequately supported by an assurance framework, that an effectiveness review has been completed, and it is consistent, complete and not misleading based on our overall knowledge.

Whole of Government Accounts

- 3.15 As part of the WGA process we are required to review and report on the consolidation pack you have prepared for submission. The actual procedures to be performed have been developed by the Audit Commission in discussion with the National Audit Office and for 'Band 2' Authorities such as Hastings, focuses on ensuring consistency between the audited accounts and the consolidation pack, and the agreement of balances with other bodies.

National Fraud Initiative

- 3.16 The Council participates in the National Fraud Initiative which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated on public bodies. This work will be carried out by an individual appointed to assist in the audit of the Council's accounts (in accordance with section 3(9) of the Audit Commission Act 1998). This will be billed directly by the Audit Commission.

Key accounts risks

- 3.17 We have not included a detailed risk assessment for our audit of the financial statements as the specific risks may not become apparent until after completion of the 2006/07 audit. If necessary we will issue a separate update to this audit plan for issues in respect of our audit of the financial statements in October 2007. However, at this stage we are aware of the following risks that are likely to impact on our audit of the financial statements:
- compliance with the SORP 2007 including changing the Fixed Asset Restatement Reserve into a UK GAAP compliant Revaluation Reserve and new accounting treatment for Local Area Arrangements
 - accounting entries and assumptions made with regards to the Foreshore Trust.
- 3.18 In addition there are some emerging issues that we intend to maintain an ongoing review of during the course of the year. These are currently not significant issues, although they may become so as changes in circumstances arise. They include:

Issue	Potential risk
International Financial Reporting Standards (IFRS)	Following the Chancellors' budget, the current timetable for full IFRS implementation is the 2008/09 accounts. This may require the accounts for 2007/08 to be restated as comparatives to ensure IFRS compliance.

4 Use of Resources

4.1 The Code requires us to:

- be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money conclusion)
- be satisfied that there are adequate arrangements in place for collecting, recording and publishing performance information
- audit your best value performance plan.

Value for money conclusion

4.2 In reaching the value for money conclusion the Code requires auditors to have regard to a standard set of relevant criteria, issued by the Audit Commission.

4.3 In meeting this responsibility, we will review evidence that is relevant to the Council's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators we will normally place reliance on their reported results to inform our work.

4.4 We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

Use of Resources assessment

4.5 The use of resources assessment continues to focus on the importance of having sound and strategic financial management to ensure that resources are available to support the Council's priorities and improve services.

4.6 A score of 1 to 4 will be given, based on underlying key lines of enquiry, for each of the following themes:

Theme	Description
Financial reporting	<ul style="list-style-type: none"> • Preparation of financial statements • External reporting
Financial management	<ul style="list-style-type: none"> • Medium-term financial strategy • Budget monitoring • Asset management
Financial standing	<ul style="list-style-type: none"> • Managing spending within available resources
Internal control	<ul style="list-style-type: none"> • Risk management • System of internal control • Probity and propriety
Value for money	<ul style="list-style-type: none"> • Achieving value for money • Managing and improving value for money

4.7 There have been a number of modifications to the Key Lines of Enquiry (KLOEs), with several criteria now assuming 'must have' status and evidence of embeddedness. In addition, the Audit Commission expects that where a '4' marking is given, evidence of notable practice or continued strong performance is provided. These changes may have an impact on the scores for each of the themes above, as well as the overall assessment score for the Council.

- 4.8 In order to better align the timetable for use of resources assessments with financial years, the Audit Commission has specified that, as part of their 2007/08 Plans, auditors will complete an updated assessment for the full year to 31 March 2007. The assessment will focus on the progress made since the last review, undertaken in late 2006, as well as the changes to specific KLOE criteria.
- 4.9 As a result of the timetable changes, the work required to arrive at the use of resources judgements will now be fully aligned with that required to arrive at the auditor's value for money conclusion. Consequently, it is proposed that the outgoing auditors perform and report this work as it will support their value for money conclusion for the year ended 31 March 2007.
- 4.10 Details of the scores and judgements will be reported to the Council. The scores will be accompanied, where appropriate, by recommendations of what the Council needs to do to improve its services. The auditor's scores are reported to the Commission and are used as the basis for its overall use of resources judgement for the purposes of CPA. The Audit Commission publishes all scores given by auditors in a national report.

Data Quality

- 4.11 The Audit Commission has specified that auditors will be required to undertake audit work in relation to data quality. This is based on a three-stage approach covering:
- Stage 1 – review of overall management arrangements to secure data quality
 - Stage 2 – completeness check of reported performance information
 - Stage 3 – data quality spot check and in-depth review of specified performance indicators.
- 4.12 The work at stage 1 will link to our review of the Council's arrangements to secure data quality as required for our value for money conclusion and, together with the results of stage 2, will inform the risk assessment for the detailed spot check work to be undertaken at stage 3. The results of the work at stage 3 will inform the Commission's CPA assessment. It is expected that one or two performance indicators will be subject to in-depth review at each District Council.

Best Value Performance Plan (BVPP)

- 4.13 We will consider and report on whether you have complied with statutory requirements in respect of the preparation and publication of your BVPP, including specified performance information and associated targets.

Key UoR Risks

- 4.14 We have included in Appendix A our assessment of the risks relevant to the Use of Resources audit work and our planned response to those risks. The key risks are:
- the East Sussex Local Area Agreement
 - redevelopment Investment - Hastings is managing a number of high profile projects designed to improve the quality of life of local people. The Council has attracted significant amounts of external funding to finance its plans for the regeneration of the local area. There is a risk that the Council may not be able to deliver timely and on cost delivery of projects and achieve value for money.

- 4.15 In addition there are some emerging issues that we intend to maintain an ongoing review of during the course of the year. These are currently not significant issues, although they may become so as changes in circumstances arise. They include:

Issue	Potential risk
New Gender Equality Duty	Actions not carried out, resulting in negative impact on the UoR judgements in 2008.
Use of Resources Assessment 2008	The Local Government White Paper identifies use of resources assessments as an important element of the new framework and specifies some additional expectations of what use of resources will cover.
Change in management structure	New arrangements will need to be bedded-in and there is potential that capacity issues emerge, which may have UoR implications.

5 Audit Commission CPA and Inspection

- 5.1 The Audit Commission's CPA and inspection activity is underpinned by the principle of targeting our work where it will have the greatest effect, based upon assessments of risk and performance. The Council's CPA category is therefore a key driver in the Commission's inspection planning process. Hastings Borough Council was assessed as 'good' in the Comprehensive Performance Assessment carried out in 2003.
- 5.2 We have applied the principles set out in the CPA framework, *CPA – the Harder Test*, recognising the key strengths and areas for improvement in the Council's performance.
- 5.3 Strengths in the Council's performance include:
- the council has a positive direction of travel and continues to deliver improvements against its corporate priorities
 - investment in the physical and social regeneration of the area remains high, and clear outcomes are evident.
- 5.4 Areas for improvement in the Council's performance include:
- delivering consistent improvement in its performance in housing the homeless
 - recycling performance is still a challenge and requires continued close monitoring
 - the council and its partners have more work to do to help reduce crime and the fear of crime.
- 5.5 Whilst the areas for improvement noted above are important, given the positive improvements against its corporate objectives, we have not considered it appropriate to carry out a specific service inspection. Rather, our inspection activity will be focused for 2007/08 on:
- an annual direction of travel assessment to evaluate progress made by the Council against its corporate objectives
 - the Relationship Manager role.
- 5.6 The table at Appendix B summarises the agreed audit and inspection response to these priorities.
- 5.7 This work has been agreed in full consultation with other regulators to ensure that work programmes are co-ordinated and proportionate.

6 Fees and Audit Arrangements

Fees

- 6.1 As for previous years, the guideline for fee levels applicable to audited bodies remains a formula-based calculation that is adjusted to reflect the agreed scope of work applicable to local circumstances and risk profile. For audit, the calculation is based on the minimum amount of work required under the risk based audit approach outlined in the Code.

Audit

- 6.2 The audit fee, excluding grants and challenge work, for the period from April 2007 to March 2008 will be £89,622 plus VAT. The fee is based on our understanding of audit requirements at the time of drafting this Plan. We may, by agreement with you, carry out additional risk based work, and the fee for this would be by agreement with you.

Inspection

- 6.3 The fee payable for the 2007/08 programme of inspection work, net of any central government grant, is £6,490.

Analysis

- 6.4 An analysis of the fee by audit area is shown below.

Work area	Work by	2006/07 Fee £	2007/08 Fee £
Code of Audit Practice			
Accounts – core audit	(PKF)	*	52,022
Accounts – WGA	(PKF)	*	2,500**
Accounts – specific risks	(PKF)	*	2,000
Subtotal accounts		50,628	56,522
Use of Resources – KLOE	(AC)	*	13,567
Use of Resources – Data Quality	(PKF)	*	12,533
Use of Resources – BVPP	(PKF)	*	1,000
Use of Resources – specific risks	(PKF)	*	6,000
Subtotal Use of Resources		32,635	33,100
Total audit		83,263	89,622
Relationship Manager	(AC)	6,280	6,490
Total audit and inspection		89,543	96,112

* Not available

** Not included in 2006 / 07 comparative fees (paid directly by Audit Commission)

- 6.5 As noted previously, the work on the update to the KLOE scores will be completed by the Audit Commission. The detailed sub-analysis above is provisional and based on our current estimations of the risks and the impact of changes to requirements in 2007/08.
- 6.6 The Audit Commission will be billing the Use of Resources KLOE and Inspection separately at a total cost of £20,057. The PKF fees will be billed on a quarterly basis over the year.
- 6.7 As incoming auditors we have based our fee on the original 2006 / 07 fee proposal of the outgoing auditors. Should the 2006 / 07 fee base change, we may need to reflect that change in 2007 / 08 if a reason for the change is of continuing relevance. If it becomes appropriate we would use the procedure set out in paragraph 6.11.

Grants

- 6.8 The fee for the review of grant claims will be billed separately based on the Audit Commission's grade related rates as set out in their publications "Work Programme and Fee Scales 2007/08". It is estimated that the fee for the 2007 claims will be approximately £35,000.

Questions and Objections

- 6.9 Time spent dealing with questions and objections will be billed separately. Where possible we will provide an estimate of the likely time required to respond to the matters to the Deputy Chief Executive before starting the work.

Assumptions

- 6.10 The fees detailed above are based on the following assumptions:
- Internal Audit will have completed their systems testing in accordance with their plans and to an adequate standard
 - you will keep us informed of any significant changes to your main financial systems or procedures
 - you will provide a comprehensive, good quality set of working papers and records to support the accounts, performance indicators and grant claims prior to the commencement of the audit and there will be no fundamental problems with them
 - you will ensure that action plans are completed promptly and the implementation of recommendations by the due date is actively monitored
 - there are no major changes to the content of government department grant instructions
 - you will prepare your grant claims in accordance with the Audit Commission's "Statement of responsibilities of grant paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns"

Process for agreeing changes to fees

- 6.11 If we need to make any significant amendments to the audit fee during the course of this plan, we will firstly discuss this with the Deputy Chief Executive. We will then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit committee.

Billing Arrangements

- 6.12 Your audit fee will be billed in four equal instalments during the year and all grants work will be billed on the basis of the hours incurred and necessary staff grades used as the work progresses.
- 6.13 Inspection and UOR KLOE work will be billed separately by the Audit Commission.

Staffing

- 6.14 The following staff will be involved in the audit throughout the course of the year:

Audit Staff		
Partner	Robert Grant	Email: Robert.Grant@uk.pkf.com Tel: 020 7065 0000
Manager	Colin Owen	Email: Colin.Owen@uk.pkf.com Tel: 020 7065 0440
Supervisor	To be confirmed	To be confirmed

- 6.15 A second partner, Richard Bint, will be involved in the audit.

Inspection Staff		
Relationship Manager	Darren Wells	Email: d-wells@audit-commission.gov.uk Tel:

Timetable

- 6.16 The following outline audit timetable shows the main dates planned for audit visits for the period covered by this Plan:

Audit Timetable	Month
Use of Resources – KLOE review*	August / September / October 2007
Accounts – core financial systems	February / March 2008
Accounts – Statements of Account and Statement on Internal Control	July / August / September 2008
Use of Resources – DQ / BVPIs	August / September 2008
Use of Resources – BVPP	August / September 2008

* - To be completed by your previous auditor

- 6.17 We will agree specific dates for our visits with officers, in advance of each part of our programme, and we will work closely with officers during the year to ensure that all key deadlines are met. We will also meet regularly with senior officers, to discuss progress on the audit and obtain an update on relevant issues.

Independence

- 6.18 International Standard on Auditing 260 (“ISA260”) requires auditors to communicate relevant matters relating to the audit to “those charged with governance”. Relevant matters include issues on auditor independence, audit planning information and findings from the audit.

- 6.19 We have included in Appendix C to this Plan a statement to the Audit Committee setting out the Audit Commission's objectivity and independence guidelines and giving our confirmation that we have complied with those guidelines.
- 6.20 Following our audit of the Statement of Accounts we will report to the Audit Committee on the findings from our audit.

Quality of Service

- 6.21 We aim to provide a high quality of service to you at all times. If, for any reason or at any time, you would like to discuss how we might improve the service, or if you are in any way dissatisfied, please contact Robert Grant in the first instance. Alternatively, you may wish to contact our Managing Partner, Martin Goodchild. Any complaint will be investigated carefully and promptly.
- 6.22 If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales ("ICAEW").
- 6.23 In addition, the Audit Commission's complaints handling procedure is detailed in their leaflet "How to complain. What to do if you wish to complain about the Audit Commission or one of its Appointed Auditors" that is available on request.

Appendix A Risk Assessment Matrix

	Audit risk identified from planning	Mitigating controls	Residual audit risk	Audit response to residual audit risk
Accounts				
1	<p>A number of changes have been brought in by SORP 2007 which will affect the 07 / 08 statements, these include:</p> <ul style="list-style-type: none"> the Fixed Asset Restatement Account fully complying with UK GAAP there is new accounting for Local Area Agreement. The LAA treatment has three possible issues and potential for reward and performance funding. Each LAA must submit six-monthly statements of usage there are changes to the accounting treatment for Government grants. 	Management will review the implications of the finalised SORP 2007.	<p>In view the number of significant changes there remains a risk that the accounts may contain significant errors or omissions. This in turn may impact on the UoR judgements.</p> <p>Significance – High</p>	<p>We will agree with management the necessary arrangements to the accounts preparation processes and reporting format. We will undertake detailed audit procedures on those transactions and balances subject to amendments as a result of the SORP 2007.</p>
2	Foreshore Trust – the Council is dealing with a complex legal issue regarding this Trust.	Issue being dealt with by Deputy CE and legal advice sort by the Council.	<p>Material impact on the financial statements for 2007/08.</p> <p>Significance – High</p>	Accounting entries and assumptions made to be reviewed and impact on the accounts assessed. Ongoing discussion with Deputy CE to continue.
Use of Resources				
3	<p>The Local Area Agreement signed in March 2006 formalises the Councils partnership working with a number of bodies in East Sussex. Substantial public funds are channelled through it and substantial resources of the Council and partner bodies are utilised to pursue LAA objectives.</p> <p>Due to the significance of the LAA to the Council (many of the objectives relate to Hastings BC) the potential increased risk of failure in the achievement of the objectives may affect the governance, performance and financial control environment.</p>	The Council has set up governance arrangements.	<p>The significance of the LAA means any weaknesses in the internal control environment could potentially lead to a material impact in the performance, financial or governance environments.</p> <p>Significance – High UoR assessment criteria – VFM 5.2</p>	We will carry out a general overview of the governance, financial and performance arrangements of the LAA across all partner bodies.
4	Hastings is managing a number of high profile projects designed to improve the quality of life of local people. The Council has attracted significant amounts of external funding to finance its plans for the regeneration of the local area and it is important to ensure that VFM is obtained in this important area.	The Council has set up performance and monitoring arrangements.	<p>Because of the importance of the regeneration projects and plans there remains a residual risk.</p> <p>Significance – High UoR assessment criteria – VFM 5.2</p>	Ongoing regular meetings with senior officers and the development of the project further will enable us to establish the need for additional work and we will bring our experience from working at other Councils.

Appendix B: Audit Commission work

Inspection activity	Reason/impact
Relationship Manager (RM) role	To act as the Commission's primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Direction of travel (DoT) assessment	An annual assessment, carried out by the RM, of how well the Council is securing continuous improvement. The DoT label will be reported in the CPA scorecard alongside the CPA category. The DoT assessment summary will be published on the Commission's website.

Appendix C

Disclosure under ISA 260 (Communication of audit matters to those charged with governance)

To: Audit Committee, Hastings Borough Council

Auditors appointed by the Audit Commission are subject to the *Code of Audit Practice* (the Code) which includes the requirement to comply with International Standards on Auditing (ISA) when auditing the financial statements. ISA 260 requires auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff.

The ISA defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In the case of Hastings Borough Council it has been agreed that the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the authority on matters which are considered to be of sufficient importance.

Auditors are required by the Code to:

- carry out their work with independence and objectivity
- exercise their professional judgement and act independently of both the Commission and the audited body
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest
- resist any improper attempt to influence their judgement in the conduct of the audit

In addition, the Code specifies that auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of the auditors' functions if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired. If auditors are satisfied that performance of such additional work will not impair their independence as auditors, nor be reasonably perceived by members of the public to do so, and the value of the work in total in any financial year does not exceed a *de minimis* amount (currently the higher of £30,000 or 20% of the annual audit fee), then auditors (or, where relevant, their associated firms) may undertake such work at their own discretion. If the value of the work in total for an audited body in any financial year would exceed the *de minimis* amount, auditors must obtain approval from the Commission before agreeing to carry out the work.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The *Standing Guidance for Auditors* includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner or Regional Director
- audit staff are expected not to accept appointments as lay school inspectors
- firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned
- auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of

interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence

- auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission
- auditors are expected to comply with the Commission's policy for both the Partner and the second in command (Manager) to be changed on each audit at least once every five years with effect from 1 April 2003 (subject to agreed transitional arrangements)
- audit suppliers are required to obtain the Commission's written approval prior to changing any Audit Partner in respect of each audited body
- the Commission must be notified of any change of second in command within one month of making the change. Where a new Partner or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience

Statement by the Appointed Auditor

In relation to the audit of the financial statements for Hastings Borough Council for the financial year ending 31 March 2008, we are able to confirm that the Commission's requirements in relation to independence and objectivity, outlined above, have been complied with.

Under the requirements of ISA 260, we are not aware of any relationships that may bear on the independence and objectivity of the audit engagement partner and audit staff which are required to be disclosed.

Statement by the Relationship Manager

I am not aware of any relationships that may affect the independence and objectivity of the Inspectors who will work with you.

Appendices and background documents:

None

Policy implications

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

Equalities & Community Cohesiveness	<input type="checkbox"/>
Crime and Fear of Crime (Section 17)	<input type="checkbox"/>
Risk Management	<input type="checkbox"/>
Environmental issues	<input type="checkbox"/>
Economic / Financial implications	<input type="checkbox"/>
Human Rights Act	<input type="checkbox"/>
Organisational Consequences	<input type="checkbox"/>

Any ticked areas should be referred to in the text of the report under the heading “policy implications”

Report written by

Tom Davies, Chief Auditor

Ext 1524