

Hastings Borough Council

Annual Audit and Inspection Plan

2008/09

May 2008



Local Public Services

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Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any member or officer in their individual capacity or to any third party.

1 Executive summary

- 1.1 The Audit and Inspection Plan sets out the work the external auditor and the Audit Commission propose to undertake for the 2008/09 financial year. The plan is based on the Audit Commission's risk-based approach to planning and the requirements of the Code of Audit Practice. It reflects audit work to be undertaken by PKF (UK) LLP ('PKF') and inspection work planned by the Audit Commission. We have also considered current national risks relevant to your local circumstances and the Council's local risks and improvement priorities. The plan also highlights work in progress and due to be reported from our 2007/08 audit plan.

Key audit risk areas

- 1.2 These are set out in detail in Appendix A, and include:
- the need to comply with the 2008 Statement of Recommended Practice (SORP) in preparing the 2008/09 accounts
 - potential financial risks arising from the increased demand for and costs of concessionary bus travel following changes in the national scheme effective from 1 April 2008
 - the implementation of the second Local Area Agreement for East Sussex which is due to be finalised and published in June 2008. Hastings is expected to have a prominent role in delivering certain priorities
 - the significant amounts of external funding the Council needs to manage under the Working Neighbourhoods Fund (£2.2 million) and the Local Enterprise Growth Initiative (£2 million).

Fees

- 1.3 The proposed total audit and inspection fee for the year is £99,209.
- 1.4 The audit fee payable to PKF is a fixed fee and this amounts to £92,609. The audit fee has increased by about three per cent compared to the 2007/08 level and is some 21 per cent below the level suggested by the Audit Commission in its fees letter for a Council with Hastings' expenditure plans and risk profile. The inspection fee is payable to the Audit Commission.

Work	2007/08	2008/09
Audit (PKF)	89,622	92,609
Inspection (Audit Commission)	6,490	6,600
Total audit and inspection	96,112	99,209

Key outputs

1.5 The key audit and inspection outputs are:

Output	Year	Month
Planning		
Audit and Inspection Plan	2008/09	June 2008
Accounts		
Auditor's opinion, covering:	2008/09	September 2009
<ul style="list-style-type: none"> Statement of Accounts Use of Resources conclusion 		
ISA 260 Report on the 2008/09 Accounts	2008/09	September 2009
Use of resources		
Report and scores on use of resources – 2007/08	2007/08	December 2008
Report on Data Quality and performance information	2007/08	December 2008
Local use of resources risks work (appendix A)	2008/09	March 2009
CPA and Inspections		
Direction of Travel	2008	February 2009
Annual reporting		
Annual Audit Letter	2008	March 2010

Other outputs

1.6 Audit work due to be completed and included in our 2007/08 audit plan includes:

Output	Year	Month
Accounts		
Auditor's opinion, covering:	2007/08	September 2008
<ul style="list-style-type: none"> Statement of Accounts 		
ISA 260 Report on the 2007/08 Accounts	2007/08	September 2008
Annual Audit and Inspection Letter	2007/08	March 2009

2 Introduction

- 2.1 This joint plan sets out the audit and inspection work to be undertaken in 2008/09 by PKF and the Audit Commission.
- 2.2 This plan has been drawn up from our risk based approach and planning meetings held. It reflects the Audit Commission's elements of the co-ordinated and proportionate audit and inspection programme.
- 2.3 As the audit for the 2007/08 financial year has not yet been completed the audit planning process for 2008/09, 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. Any significant changes to the plan will be reported to the Audit Committee.

Responsibilities

- 2.4 The Code of Audit Practice (the Code) defines auditors' responsibilities in relation to:
- the financial statements (including the annual governance statement)
 - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 2.5 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. 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.
- 2.6 The work of auditors and inspectors is summarised below.

Audit work – PKF

- 2.7 The work of the auditors covered by this plan can be summarised as follows:

Accounts

- provide an opinion on the Statement of Accounts for the year ended 31 March 2009

Use of resources

- assessment of the arrangements to secure economy, efficiency and effectiveness in the use of resources. This work includes the auditors' judgements covering the 2007/08 financial year to be published by the Audit Commission
- review of data quality arrangements and selected performance information for 2007/08
- other use of resources work in response to local risks and improvement priorities.

Inspection work – Audit Commission

- 2.8 The Comprehensive Area Assessment Lead (CAAL) is the primary point of contact with the Council and inspectorates and co-ordinates all inspection activities, ensuring this is underpinned by the principal of targeting work where it will have the greatest effect. This work includes preparing an annual Direction of Travel statement of performance improvements in the year. Discussions have been and will continue to be held between auditors and inspectors to ensure the audit and inspection work in this plan continues to be co-ordinated and targeted at your key areas for improvement.

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.

Scope of audit

- 3.2 We carry out procedures designed to obtain sufficient appropriate audit evidence to determine with reasonable confidence whether the accounts are free from material misstatement and evaluate the overall presentation in order to ascertain whether they have been prepared in accordance with relevant legislation and accounting standards.
- 3.3 We identify the principal areas of risk of material misstatement from our knowledge of the Council, of the environment in which it operates and from discussions with management. We address these risks by carrying out appropriate audit procedures.
- 3.4 In carrying out this work we:
- consider the extent to which your accounting and internal control systems are a reliable basis for recording transactions and from which to prepare the accounts
 - consider the robustness of the your processes for preparing the accounts, undertake analytical procedures and tests of transactions and balances in the accounts
 - consider the adequacy of the disclosures in your Statement of Accounts.
- 3.5 Further details about our audit approach are provided in the following paragraphs.

Key financial systems and Internal controls

- 3.6 Auditing standards 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 Statement of Accounts 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.
- 3.7 In carrying out this review, we shall consider the environment within which those controls operate and evaluate specific controls in response to significant risks. Following our evaluation, we will assess whether we shall be placing reliance on particular controls and where reliance is to be placed will conduct testing of the relevant controls.

Working with Internal Audit

- 3.8 The Audit Commission expects appointed auditors and Internal Audit departments to work together to ensure audit work is most effectively targeted, thereby minimising duplication and the overall level of audit resource required.
- 3.9 We have planned the audit on the basis we will be able to place full reliance on the work of Internal Audit and its work will be directed to each of the key financial systems.

Fraud risk assessment

- 3.10 We have a responsibility to consider specifically the potential risk of material misstatement of your Statement of Accounts because of fraud and error, including the risk of fraudulent financial reporting.
- 3.11 The primary responsibility for ensuring your internal control frameworks are sufficient to prevent and detect fraud and corruption lies with management and ‘those charged with governance’ (the Audit Committee).

- 3.12 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 identified in performing analytical procedures.
- 3.13 For all residual fraud risks, and for any actual frauds identified and we have been informed of, we will consider the possible impact on your Accounts and our audit programme.

Statement of Accounts

- 3.14 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.
- 3.15 We will review the appropriateness and consistency of application of the accounting policies adopted by the Council and ensure these are consistent with the *Local Authority Accounting in the United Kingdom - Statement of Recommended Account Practice (SORP)*.
- 3.16 We will review your Annual Governance Statement to assess whether it has been presented in accordance with relevant guidance, is adequately supported, an effectiveness review has been completed, and it is consistent, complete and not misleading based on our overall knowledge.

Whole of Government Accounts (WGA)

- 3.17 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. Our work involves ensuring consistency between the audited accounts and the consolidation pack, and the agreement of balances with other bodies.

Key accounts risks

- 3.18 Detailed accounts risks may not become apparent until after completion of the 2007/08 audit although our assessment to date suggests the following risks are likely to impact on our audit:
- the need to comply with the 2008 Statement of Recommended Practice (SORP) in preparing the 2008/09 accounts
 - potential financial risks arising from the increased demand for and costs of concessionary bus travel following changes in the national scheme effective from 1 April 2008
 - the need to account for the external funding the Council expects to invest in the area under the Working Neighbourhoods Fund (£2.2 million) and the Local Enterprise Growth Initiative (£2 million).
- 3.19 We have documented these risks and our planned audit response in Appendix A.

- 3.20 In addition, there are some emerging issues 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, such as the implementation of International Financial Reporting Standards (IFRS) in 2010/11 for Councils. We will work with the Council on the introduction of the IFRS and discuss the implications of the standards.

4 Use of resources

4.1 The Code requires us to:

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

Value for money conclusion

4.2 We will give an overall conclusion on whether you have proper arrangements in place to secure value for money (VFM). This work is fully integrated with the new use of resources assessment auditors are expected to complete in 2008/09.

4.3 In meeting this responsibility, we will review evidence relevant to your 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 We will complete a use of resources assessment for the 2007/08 financial year. Included in your fee is the work PKF must undertake in finalising our judgements to be published by the Audit Commission in February 2009. The assessment focuses on the importance of having sound and strategic financial management to ensure resources are available to support the Council's priorities and improve services.

4.6 The work required to arrive at the use of resources assessment is fully aligned to arrive at the auditor's value for money conclusion.

4.7 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	Preparation of financial statements External reporting
Financial management	Medium-term financial strategy Budget monitoring Asset management
Financial standing	Managing spending within available resources
Internal control	Risk management System of internal control Probity and propriety
Value for money	Achieving value for money Managing and improving value for money

4.8 This assessment will focus on the progress made since the previous assessment and on changes to specific Key Lines of Enquiry. There are a number of modifications to the criteria and 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.

4.9 A score of 1 to 4 will be given, based on underlying criteria, for each theme and details of the scores and judgements will be reported to you. 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 Audit Commission and are used as the basis for its overall use of resources judgement for the purposes of CPA.

Data Quality

- 4.10 The Audit Commission has specified 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 for 2007/08.
- 4.11 The work at Stage 1 will link to our review of your 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 between one and four indicators will be subject to in-depth review at a Borough Council.

National Fraud Initiative

- 4.12 In 2008/09 the National Fraud Initiative will be undertaken by the Audit Commission under its new data matching powers inserted into the Audit Commission Act 1998 by the Serious Crime Act 2007. The Audit Commission has not yet set a fee for this work and will do so in 2008 when the new statutory provisions come into force. The fee will be invoiced separately by the Audit Commission.

Key use of resources risks

- 4.13 We have included in Appendix A our assessment of the risks relevant to our use of resources audit work and our planned response to those risks. The key risks are:
- the implementation of the second Local Area Agreement for East Sussex which is due to be finalised and published in June 2008. Hastings is expected to have a prominent role in delivering certain priorities
 - additional responsibilities arising from changes to the national concessionary bus pass scheme
 - the significant amounts of external funding the Council needs to manage under the Working Neighbourhoods Fund (£2.2 million) and the Local Enterprise Growth Initiative (£2 million). The Council will need to ensure value for money is secured from such investment.

5 Inspection

- 5.1 From April 2009, the Audit Commission, jointly with the other public service inspectorates, will be implementing Comprehensive Area Assessment (CAA). Therefore, 2008/09 is the last year in which corporate assessments and programme service inspections will be undertaken as part of the CPA framework.
- 5.2 The Audit Commission's CPA and inspection activity is underpinned by the principle of targeting work where it will have the greatest effect, based upon assessments of risk and performance.
- 5.3 The Council's CPA category and Direction of Travel assessment is, therefore, a key driver in the Commission's inspection planning process. The Council was assessed as 'Good' in its CPA in 2003.
- 5.4 We have applied the principles set out in the CPA framework 'CPA – District Council Framework From 2006' recognising the key strengths and areas for improvement in the Council's performance.
- 5.5 Strengths in the Council's performance include:
- some high performing services when measured against national performance indicators and external assessments of regulators, including in priority areas
 - overall a strong rate of improvement when compared with other District Councils
 - sound governance arrangements and use of resources
 - delivery of good value for money.
- 5.6 Areas for improvement in the Council's performance include:
- continued focus on weaker performing services seeking improvement in performance and costs as part of its commitment to improve value for money
 - strengthening arrangements for financial reporting and internal control
 - continuing to take action to reduce the number of days lost through sickness absence.
- 5.7 On the basis of the planning process, we have not proposed any inspection activity and the CAAL's work will include liaison and planning requirements and the annual Direction of Travel assessment.

Inspection activity	Reason/impact
CAAL role	To act as the Audit 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 CAAL, of how well the Council is securing continuous improvement. The Direction of Travel assessment will be reported in the CPA scorecard alongside the CPA category. The Direction of Travel assessment summary will be published on the Commission's website.

6 Grant claims

- 6.1 As agents of the Audit Commission we are required to express an opinion on certain grant claims submitted by the Council. There are de-minimis arrangements in place for the certification of claims, which are:
- amounts below £100,000 will not be certified
 - amounts between £100,000 and £500,000 will be subjected to limited audit testing to agree form entries to underlying records, but the eligibility of expenditure will not be tested
 - amounts greater than £500,000 will be audited in accordance with the outcome of a control environment risk assessment.
- 6.2 The dates for completion of this work are laid down by the Government Departments to which the claims are submitted. We will liaise with the relevant Council officers to ensure we complete our work within the given timetable.

7 Fees and audit arrangements

Fees

- 7.1 As in previous years, the guideline for fee levels applicable to audited bodies remains a formula-based calculation 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

- 7.2 The audit fee, excluding grants and challenge work, for the period from April 2008 to March 2009 will be £92,609 plus VAT. The fee is based on our understanding of audit requirements at the time of drafting this Plan.

Inspection

- 7.3 The fee payable for the 2008/09 programme of inspection work, net of any central government grant, is £6,600.

Analysis

- 7.4 The Audit Commission's fees letter suggests a 'scale fee' for a Council with Hastings expenditure plans and risk profile. The scale fee for Hastings Borough Council, based on the Commission's recommendations, is £116,555. Our proposed fee of £92,609 is 21 per cent below the scale fee.

Work area	2007/08 Fee £	2008/09 Fee £
Code of Audit Practice		
Accounts – core audit	52,022	54,483
Accounts – WGA	2,500	2,549
Accounts – specific risks	2,000	2,000
Subtotal accounts	56,522	59,032
Use of Resources – KLOE	13,567	13,861
Use of Resources – Data quality	12,533	12,716
Use of Resources – specific risks	7,000	7,000
Subtotal Use of Resources	33,100	33,577
Subtotal Audit	89,622	92,609
CAAL Role	6,490	6,600
Total audit and inspection	96,112	99,209

- 7.5 The detailed analysis above is provisional and based on our current estimations of the risks and the impact of changes to requirements in 2008/09.
- 7.6 The above fees exclude the NFI fee, which will be invoiced separately (see paragraph 4.12).

Grants

- 7.7 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 publication "Work programme and scales of fees 2008/09" which will be set out in their work programme and fee scales once published. It is anticipate the fee for the 2008 claims will be approximately £32,000.

Questions and Objections

- 7.8 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 before starting the work.

Assumptions

- 7.9 The fees detailed above are based on the following assumptions:
- the level of risk in relation to the audit of the financial statements is not significantly different from 2007/08
 - Internal Audit will have completed systems testing in accordance with their plans and agreed timetable 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 audit reports are responded to promptly and the implementation of recommendations by the due date is actively monitored
 - you will monitor the implementation of agreed action plans and recommendations will have been implemented in accordance with agreed timescales
 - 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"
 - there are no major changes to the content of government department grant instructions.

Process for agreeing changes to fees

- 7.10 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 and Director of Corporate Resources.

Billing Arrangements

- 7.11 Your audit fee will be billed in 4 instalments as follows:

Month	£
June 2008	23,153
September 2008	23,152
December 2008	23,152
March 2009	23,152
Total	92,609

- 7.12 Inspection work will be billed separately by the Audit Commission. All grants work will be billed based on the hours incurred and necessary staff grades used as the work progresses.

Staffing

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

Audit staff	
<p>Partner</p> <p>Robert Grant</p> <p>Email: robert.grant@uk.pkf.com Tel: 020 7065 0170</p>	<p>Responsible for delivering the audit in line with the Code of Audit Practice, agreeing the Audit Plan, Accounts report to those charged with governance and Annual Audit Letter. Also responsible for signing opinions and conclusions, and for liaison with the senior officers and Audit Committee.</p>
<p>Manager</p> <p>Colin Owen</p> <p>Email: colin.owen@uk.pkf.com Tel: 020 7065 0309</p>	<p>Responsible for overall control of the audit, ensuring timetables are met and reviewing the audit output. Also responsible for managing our accounts and use of resources work and for completion of the Audit Plan, Accounts report to those charged with governance, and Annual Audit Letter.</p>
<p>Use of Resources Senior Manager</p> <p>John Taylor</p> <p>Email: john.taylor@uk.pkf.com Tel: 020 7065 0554</p>	<p>Responsible for delivery of the use of resources and data quality audit to the manager.</p>
<p>Supervisor</p> <p>Adam Brighton</p> <p>Email: adam.brighton@uk.pkf.com Tel: 020 7065 0000</p>	<p>Responsible for managing our audit fieldwork on site for accounts and use of resources.</p>
<p>Other Team Members</p> <p>We will ensure other team members are introduced to officers and are familiar with the Council's operations before detailed work commences.</p>	

CPA and Inspection staff	
<p>CAA Lead</p> <p>Sandra Prail</p> <p>Email: s-prail@audit-commission.gov.uk Tel 07790775060</p>	<p>Responsible for providing a focal point for the Commission's work in your local area, ensuring the combined inspection programme across all inspectorates is tailored to the level and nature of risk for the area and its constituent public bodies.</p>

Timetable

7.14 The key audit and inspection outputs will be:

Output	Year	Month
Planning		
Audit and Inspection Plan	2008/09	June 2008
Accounts		
Auditor's opinion, covering: <ul style="list-style-type: none"> • Statement of Accounts • Use of Resources conclusion 	2008/09	September 2009
ISA 260 Report on the 2008/09 Accounts	2008/09	September 2009
Use of resources		
Report and scores on use of resources – 2007/08	2007/08	December 2008
Report on Data Quality and performance information	2007/08	December 2008
Local use of resources risks work (appendix A)	2008/09	To be agreed
CPA and Inspections		
Direction of Travel	2008	February 2009
Annual reporting		
Annual Audit Letter	2008	March 2010

7.15 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 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

7.16 Auditing Standards require 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.

7.17 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 we have complied with those guidelines.

7.18 Following our audit of the Statement of Accounts we will report to the Audit Committee on the findings from our audit.

Quality of Service

7.19 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.

7.20 If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales (“ICAEW”).

7.21 In addition, the Audit Commission’s complaints handling procedure is detailed in their leaflet “How to complain: What to do if you want to complain about the Audit Commission or its

appointed auditors”, which is available on their website [<http://www.audit-commission.gov.uk/complaints/>].

- 7.22 If you are in any way dissatisfied, or would like to discuss how we can improve our inspection service, please contact the CAAL in the first instance. Alternatively you may wish to contact the Head of Operations of the Audit Commission’s South East Region, Chris Westwood.

Advice and assistance

- 7.23 Under paragraph 9 of Schedule 2A of the Audit Commission Act 1998 the Audit Commission has powers to provide 'advice and assistance' (A&A) to another public body where this is requested.
- 7.24 If you wish the Commission to provide additional services under these powers, please contact Sandra Prail.

Appendix A Risk Assessment Matrix

	Audit risk identified from planning	Mitigating controls	Residual audit risk	Audit response to residual audit risk
Accounts				
1	<p>The proposed changes to the SORP 2008 include further guidance on the Annual Governance Statement, clarification on deferred charges, intangible assets and back pay to be included in the unequal pay claims reserve.</p>	<p>Management has assured us arrangements for producing the annual accounts represent best practice.</p> <p>Management will review the implications of the finalised SORP 2008 and we will agree an appropriate way forward to comply with the new accounting requirements.</p>	<p>While there are no significant changes, there remains a risk the Council may not have prepared the Statement of Accounts in full compliance with the 2008 SORP requirements.</p> <p>Significance – High</p>	<p>We will agree with management the necessary amendments to the accounts preparation processes and reporting format, and undertake detailed audit procedures on those transactions and balances subject to amendment by the SORP 2008.</p>
2	<p>From 1 April 2008 the Council will provide concessionary bus passes to people aged over 60 years, which are valid on buses throughout the country.</p> <p>The Council receives invoices from bus companies via East Sussex County Council and an external contractor.</p> <p>There remains a financial risk to the Council demand for the service exceeds projections.</p>	<p>Management monitor budgets on a regular basis and ensure any expenditure is appropriately authorised and approved.</p>	<p>As the new scheme is implemented, there are risks systems are not sufficient to deal with the increase in demand for bus usage.</p> <p>Significance – Medium</p>	<p>We will undertake an East Sussex-wide review of the concessionary bus pass system.</p>
3	<p>The Council will need to account for significant amounts of external funding which is due to finance investment in the area under the Working Neighbourhoods Fund (£2.2 million) and the Local Enterprise Growth Initiative (£2 million).</p>	<p>The Council has a good track record of ensuring specified funding (such as the Neighbourhood Renewal Fund) is fully accounted for.</p>	<p>There is a risk funding flows are not fully accounted for.</p> <p>Significance – Low</p>	<p>We will review the transactions included in the 2008/09 accounts.</p>

	Audit risk identified from planning	Mitigating controls	Residual audit risk	Audit response to residual audit risk
<p>Use of Resources</p>	<p>4 The Local Area Agreement signed in March 2006 formalises the Councils partnership working with a number of organisations 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 ongoing significance of the LAA to the Council, (many of the objectives are the responsibility of the Council to oversee) the potential increased risk of failure in the achievement of the objectives may affect the governance, performance and financial control environment.</p>	<p>The Council has set up governance arrangements.</p>	<p>The significance of the LAA means any weaknesses in the internal control environment adversely affect the performance, financial or governance environments.</p> <p>Significance – High</p>	<p>Ongoing meetings with senior officers will enable us to establish the need for additional work and we will bring our experience from working at other Councils.</p>
<p>5</p>	<p>The Council manages a number of high profile projects designed to improve the quality of life of local people. The Council has attracted significant external funding, Working Neighbourhoods Fund (£2.2 million) and the Local Enterprise Growth Initiative (£2 million), to finance its plans for the regeneration of the local area and it will need to ensure VFM is secured.</p>	<p>The Council has set up performance and monitoring arrangements.</p>	<p>Because of the importance of the regeneration projects and plans there remains a residual risk.</p> <p>Significance – High</p>	<p>Ongoing 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.</p>

Appendix B

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 Council 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 2009, 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 CAAL

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