



Accountants &
business advisers

Hastings Borough Council

Annual Audit Plan 2010/11

March 2011

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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.

[Code of Audit Practice](#)

[Statement of Responsibilities](#)

1 Executive summary

- 1.1 The purpose of this Annual Audit Plan is to inform you of the work we propose to undertake in respect of the audit of the accounts and to review Hastings Borough Council's (the Council) arrangements for securing value for money for the 2010/11 financial year. The Plan updates the fee letter discussed with the Audit Committee in June 2010 now that we have concluded our 2009/10 audit. The Plan also considers emerging issues such as the outcome of the new Government's Comprehensive Spending Review and the 2011/12 grant settlement for Hastings.

Significant risk areas

- 1.2 Our audit is designed to respond to significant risks and focus audit effort on providing our opinion on the accounts and value for money conclusion. The significant risks we have identified are set out in detail in section 3 and Appendix A, and include:

Accounts

- the risk of management override of controls (this is a non-rebuttable risk under international standards on auditing)
- implementation of International Financial Reporting Standards (IFRS).

Value for Money

- 1.3 We have not identified any significant risk areas from our audit planning. The Council has established arrangements and a good track record for securing value for money, which we have assessed positively in previous years. However, the Council is dealing with a challenging financial outlook, is reviewing its priorities based on consultation with local people and is taking action to improve performance in certain services.
- 1.4 The Government's grant settlement announced for Hastings in December 2010 indicates a reduction in its 'Formula Grant' of 14.8 per cent in 2011/12 and a cumulative reduction of 24.7 per cent (compared to the 2010/11 amount) by 2012/13. The Council estimates the reduction in formula grant to be £1.3 million in 2011/12 and a cumulative reduction of £2.2 million in 2012/13. The settlement compares to the Council's expectations based on its financial modelling that Formula Grant would reduce by 28 per cent over the four year period to 2014/15. The Council will not receive any further Area Based Grant after 2010/11 (when it amounted to £3.8 million).
- 1.5 To mitigate the loss of Formula and other Specific Grant income, the Council is due to receive transitional funding from the Government of £2.6 million in 2011/12 and a further £2 million in 2010/13. The amounts should assist the Council in further stabilising its financial position over the medium term. We will consider the Council's response to this challenging agenda in completing our detailed risk assessment and value for money conclusion work.

Fees

- 1.6 The audit fee for the year is £107,000. It has not been necessary to make any amendments to the audit fee since we issued our Audit Fee Letter to you in April 2010. However, the Audit Commission decided a rebate for the 2010/11 year should be paid as a result of the Government's announcement it did not wish work on Comprehensive Area Assessment (CAA) to continue and the subsequent introduction of a more focused approach to auditors' value for money work. The result of the Commission's decision is that Hastings will receive a rebate of about £1,950 (1.5 per cent of the Audit Commission's scale fee) for the 2010/11 year though the final amount has not yet been notified.
- 1.7 For the 2010/11 financial statements audit, the Audit Commission has already provide a six per cent rebate of audit fee to mitigate the increase arising from the transition to IFRS. The Audit Commission wrote to the Council in February 2010 providing a rebate of £7,761

accordingly. The total rebate to be provided by the Audit Commission for the 2010/11 year is therefore about £9,711.

- 1.8 The assumptions we have made in setting the audit fee are set out in section 4.
- 1.9 Our fee for the audit of grant claims and other returns to Government departments for the year ended 31 March 2010 is complete and the outturn fee is £52,145 which is above the planned amount of £40,000 and compares to the 2008/09 fee of £40,028. The position arose as a result of additional work needed to meet the requirements of the Department for Work and Pensions (DWP) in auditing the Housing and Council Tax Benefit Subsidy claim. The 2009/10 claim was subject to a minor qualification involving the reconciliation of benefit awarded to benefit actually paid. The qualification was removed in December 2010.
- 1.10 Based on our experience, and taking account of grade rate changes outlined in the Audit Commission's Work Programme and Fees document for 2010/11, we anticipate fees for claims and returns for the year ended 31 March 2011 to be approximately £45,000. However, there may be a reduction in this estimate because we are exploring the possibility of Internal Auditors undertaking a significant proportion of the detailed work involved in reviewing of housing and council tax benefit cases to support our work on the 2010/11 subsidies claim.

Key outputs

- 1.11 The key reports, opinions and conclusions from the audit will be:

Output	Expected timing
Accounts	
Review of internal controls	April 2011
Annual governance report and the audit opinion covering the financial statements	September 2011
Opinion on the Whole of Government Accounts return	September 2011
Value for money	
Risk Assessment	June 2011
Value for money conclusion	September 2011
Annual reporting	
Annual audit letter	November 2011
Grants	
Grants claims report to Those Charged With Governance (for the 2009/10 financial year)	February 2011

2 Introduction

- 2.1 This Annual Audit Plan sets out the audit work we propose to undertake for the 2010/11 financial year. It has been drawn up from our risk based approach to audit planning and planning meetings held. The information and fees in this Plan will be kept under review and any significant changes will be reported to the Audit Committee.
- 2.2 The context in which we deliver our audit is set out in Appendix B.

Assessing risks

- 2.3 We are committed to targeting work where it will have the greatest effect, based upon assessments of risk and the Council's performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fee. It also means ensuring our work is co-ordinated with the work of other regulators, and that our work helps you to improve.
- 2.4 Our risk assessment process focuses on the identification of significant financial and operational risks. For each of the significant risks identified, we consider the arrangements put in place to mitigate the risk and plan our work accordingly.

Impact of introduction of Clarity International Standards on Auditing (clarity ISAs)

- 2.5 The audit of financial statements for years ending on or after 15 December 2010, requires auditors to apply the clarified (or revised and redrafted) International Standards on Auditing (UK & Ireland). The clarified ISAs have increased the number of requirements that have to be met when carrying out an audit and you are likely to notice a change in our approach to the audit of certain areas. Consequently, we may require additional information from you or we may request information at a different stage of the audit process than has been the case in previous years.
- 2.6 Examples of areas where our approach to the audit may change as a result of the additional requirements of the clarified ISAs include (but are not limited to) the following.

Materiality

- 2.7 We are required to set, not only a materiality level against which to evaluate the effect of identified misstatements on the audit opinion but also a second level of materiality (known as 'performance materiality') which is to be used when planning and performing the audit. This has to be set at a level lower than the materiality for the financial statements as a whole to reduce to an appropriately low level the probability the aggregate of uncorrected and undetected misstatements exceeds materiality (for the financial statements as a whole). The potential impact is that areas previously unaudited on the grounds of materiality may now fall within the scope of our audit work; or more work may have to be completed in certain areas to reflect the lower level of materiality.

Related parties

- 2.8 Whilst under the existing ISAs we were required to obtain an understanding of the related parties of the entity, including the controls that those charged with governance have in place over the identification and accounting for related parties, the clarified ISAs place a greater emphasis on a risk based approach to the consideration of this area. We use our understanding to assess the risk of material misstatement of the financial statements in respect of related parties and design further audit procedures accordingly. Our audit work on related parties will also include consideration of transactions that have occurred, if any, outside the normal course of business and in identifying any omitted related party relationships and transactions.

Accounting estimates

- 2.9 We will consider all areas of the financial statements subject to accounting estimates and we are required to understand how those estimates have been determined and consider the effects of uncertainty in assumptions used. We will identify and assess the risks of material misstatement arising from the use of accounting estimates and will focus our work on areas where the risks of material misstatement are greatest. Our audit work on accounting estimates will also focus on identification of any possible instances of management bias.
- 2.10 The Auditing Practices Board previously estimated that these additional requirements would increase the cost of an audit of an entity such as Hastings Borough Council.

Control environment

- 2.11 Under the existing ISAs we were required to report to Those Charged with Governance any significant weaknesses in the control environment identified during the audit. The clarified ISAs place an increased emphasis on the need to communicate in writing significant deficiencies in internal control identified during the audit to Those Charged with Governance on a timely basis. In addition, we must report other deficiencies in internal control identified during the audit that are of sufficient importance to merit management's attention. As a consequence, it may be necessary for us to produce additional reports to management and Those Charged with Governance, about weaknesses identified in the control environment at the Council.

3 Risk assessment

Significant financial statement audit risks

- 3.1 Summarised below are the significant financial statement risks that are likely to impact on our audit of which we are currently aware. More detail on these risks can be found in Appendix A.

Management override

- 3.2 International Standards on Auditing (UK and Ireland) presume a risk of management override of controls is present in all entities and requires us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements. We must also review accounting estimates for possible bias and obtain an understanding of the business rationale of significant transactions that appear to be unusual. We are also required to consider the need to perform additional audit procedures.

International Financial Reporting Standards

- 3.3 Full implementation of International Financial Reporting Standards (IFRS) in local government from 2010/11 poses a risk that the Council may not appropriately apply IFRSs in the production of its financial statements, including restatement of prior year comparative figures. This could impact on the accuracy of a number of balances and income and expenditure totals and the completeness of disclosures within the financial statements.
- 3.4 We have set a triviality level of £33,000 for the 2010/11 accounts audit and will not report to you any matters arising below this level.

Emerging issues

- 3.5 The Council is dealing with a difficult financial outlook in the aftermath of the coalition Government's Emergency Budget and Comprehensive Spending Review which affected the resources available to the Council in 2010/11 and beyond. The Government's grant settlement announced for Hastings in December 2010 indicates a reduction in its 'Formula Grant' of 14.8 per cent in 2011/12 and a cumulative reduction of 24.7 per cent (compared to the 2010/11 amount) by 2012/13. The Council estimates the reduction in formula grant to be £1.3 million in 2011/12 and a cumulative reduction of £2.2 million in 2012/13. The settlement compares to the Council's expectations based on its financial modelling that Formula Grant would reduce by 28 per cent over the four year period to 2014/15. The Council will not receive any further Area Based Grant after 2010/11 (when it amounted to £3.8 million).
- 3.6 To mitigate the loss of Formula and other Specific Grant income, the Council is due to receive transitional funding from the Government of £2.6 million in 2011/12 and a further £2 million in 2010/13. The amounts should assist the Council in further stabilising its financial position over the medium term. We will consider the Council's response to this challenging agenda in completing our detailed risk assessment and value for money conclusion work.

Updated value for money conclusion risk assessment

- 3.7 We have updated our value for money risk assessment for 2010/11 to take into account:
- matters arising from the completion of the 2009/10 audit and reported in our annual audit letter
 - additional audit knowledge gained since our initial risk assessment which was included in our 2010/11 Audit Fee Letter, presented to the Audit Committee in April 2010
 - the introduction of the Audit Commission's revised arrangements for the determination of the value for money conclusion (see Appendix B).
- 3.8 The table below sets out the issues identified during our updated risk assessment.

Issue	Planned work
Service performance	
<p>In order to meet the performance targets set for the year, the Council has taken action to:</p> <ul style="list-style-type: none"> • continue to reduce the amount of household waste produced • improve performance in the time taken to process both major and minor planning applications • improve the speed of processing new benefit claims and for changes in circumstances. 	<p>Our value for money risk assessment and conclusion will consider the Council's progress toward its targets in 2010/11.</p>

Emerging issues affecting the value for money conclusion

- 3.9 There are some issues that we intend to maintain an ongoing review of during the course of the year. Some of these are significant issues affecting the Council's resource base and the structure of public services in the East Sussex area, as shown below.

Issue	Response
Financial Resilience	
<p>The Council is dealing with a difficult financial outlook and is currently reviewing its priorities and assessing its financial resilience.</p>	<p>Our VFM conclusion requires us to review the Council's arrangements for securing financial resilience. We will consider the Council's progress towards its 2010/11 budget, its arrangements for preparing the 2011/12 budget and the further development of the medium term financial plan. We will review the Council's approach to identifying and responding to financial risks and opportunities and also review progress made towards efficiency plans and the financial stability of the Council over the medium term. We will also consider the extent to which financial plans support achievement of Council priorities where these have been updated in the year.</p>
<p>While the Council increased the level of the General Reserve as at 31 March 2010, the total amount of general revenue balances and reserves available (£6.4 million as at 31 March 2010) will require careful management given the significant financial risks and uncertainties the Council is facing.</p>	<p>We will review the Council's strategy for maintaining its general balances and reserves at a prudent level. We will also review the scope and extent of earmarked reserves maintained as the Council further develops its priorities.</p>

4 Fees and billing arrangements

Fees

- 4.1 The audit fee for the year is £107,000. It has not been necessary to make any amendments to the audit fee since we issued our Audit Fee Letter to you in April 2010. However, the Audit Commission decided a rebate for the 2010/11 year should be paid as a result of the Government's announcement it did not wish work on Comprehensive Area Assessment (CAA) to continue and the subsequent introduction of a more focused approach to auditors' value for money work. The result of the Commission's decision is that Hastings will receive a rebate of about £1,950 (1.5 per cent of the Audit Commission's scale fee) for the 2010/11 year though the final amount has not yet been notified.
- 4.2 For the 2010/11 financial statements audit, the Audit Commission has already provide a six per cent rebate of audit fee to mitigate the increase arising from the transition to IFRS. The Audit Commission wrote to the Council in February 2010 providing a rebate of £7,761 accordingly. The total rebate to be provided by the Audit Commission for the 2010/11 year is therefore about £9,711.
- 4.3 In addition, the Audit Commission has mandated, on an annual basis, an overall assessment of every Local Authority's grants control environment and also a report to be issued to Those Charged With Governance covering the grants work undertaken. The additional work, which was not included in the Fees and Work Programme document, is estimated at £950 which is consistent with the 2009/10 fee. The Audit Commission has published its proposals for the fees to be paid by local authorities in 2011/12. These proposals are being consulted on and indicate Hastings' fee will amount to £101,950, as shown below.

Audit area	Actual fee 2009/10 £	Planned fee 2010/11 £	Estimated Fee 2011/12 £
Financial statements, including WGA	61,400	70,000	TBA
2009/10 Use of Resources work	39,500	37,000	TBA
2010/11 Value for money conclusion			
Total Code audit fee	£100,900	£107,000	£101,650
Certification of claims and returns ⁽¹⁾	£52,145	£45,000	TBA
Grant claims report to those charged with governance	£950	£950	TBA
Audit Commission Rebate (Approx.)	0	£(9,700)	TBA

⁽¹⁾ The planned fee for the 2009/10 year was £40,000. The actual fee for the 2008/09 year was £40,028.

- 4.4 As well as the audit fee of £107,000 identified above, the following fees are separately billable:

Work	Estimate £	Billing arrangement
Questions and objections	TBA	Should any arise, 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.
Grants certification	45,000	<p>Fees billed are based on the Audit Commission's grade related rates as set out in the <i>Work Programme and Fee Scales</i> on the basis of hours incurred.</p> <p>Our fee for the audit of grant claims and other returns to Government departments for the year ended 31 March 2010 is complete and the outturn fee is £52,145 which is above the planned amount of £40,000 and compares to the 2008/09 fee of £40,028.</p> <p>Based upon our experience of this most recent set of reviews, we anticipate fees for claims and returns for the year ended 31 March 2011 to be approximately £45,000, taking account of grade rate changes outlined in the Audit Commission's <i>Work Programme and Fees</i> document for 2010/11. There may be a reduction in this estimate because we are exploring the possibility of Internal Auditors undertaking a significant proportion of the detailed work involved in reviewing of housing and council tax benefit cases to support our work on the 2010/11 subsidies claim.</p>

- 4.5 The fees detailed above are based on the following assumptions:

- Internal Audit will have completed its systems testing in accordance with the plans and agreed timetable, and to an adequate standard
- we will, after re-performing a sample of completed work, be able to place full reliance on the work of Internal Audit
- you will keep us informed of any significant changes to your main financial systems or procedures
- you will provide the information requested in our records required listing in accordance with the timetable agreed and that there will be no significant departures from the timetable. The firm reserves the right to increase its fees should this not be the case or should we encounter unexpected problems, or issues arise, causing significant additional work.
- time spent dealing with issues arising from our audit work is usually that of senior people and hence the cost will necessarily often be disproportionate to the original fee.
- you will ensure audit reports are responded to 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.

- 4.6 The fee assumes efficient co-operation as set out above and is set at the minimum level to carry out the audit. This assumption is based upon arrangements for 2010/11 and our consideration of your annual governance statement in your 2009/10 accounts.

Billing arrangements

4.7 Your audit fee is being billed in four equal instalments shown below.

Month	£
June 2010	26,750
September 2010	26,750
December 2010	26,750
March 2011	26,750
Total	£107,000

5 Audit arrangements

Staffing

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

	Role and responsibility
Engagement Partner Robert Grant Email: robert.grant@uk.pkf.com Tel: 020 7065 0170	Responsible for delivering the audit in line with the Audit Commission Code of Audit Practice, including agreeing the Audit Plan, Annual Governance Report and Annual Audit Letter. Also responsible for signing opinions and conclusions, liaison with senior management and the Audit Committee.
Senior Manager Stuart Frith Email: stuart.frith@uk.pkf.com Tel: 020 7065 0432	Responsible for overall control of the audit, ensuring timetables are met and reviewing the audit output. Also responsible for managing our accounts and value for money work and for completion of the Audit Plan, Annual Governance Report and Annual Audit Letter.
Senior Richard Hogg Email: richard.hogg@uk.pkf.com Tel: 020 7065 0726	Responsible for managing our audit fieldwork.
VAT advisor Richard Wild Email: richard.wild@uk.pkf.com Tel: 01473 720744	Responsible for assessing the arrangements in place to manage the Council's responsibilities in respect of VAT.

Timetable

5.2 The following outline timetable shows the planned start dates and reporting dates for key fieldwork elements of the audit:

Audit Timetable	Timing
Accounts – core financial systems	April - May 2011
Accounts – financial statements	July - August 2011
Value for money – risk assessment	September 2010 - September 2011
Value for money conclusion	September 2011
Grants reviews (including HBCOUNT benefits work)	June to November 2011

5.3 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. The expected timing of key outputs from the audit is set out in paragraph 1.9.

Communication

5.4 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.

- 5.5 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.
- 5.6 Following our audit of the financial statements we will report to the Audit Committee on the findings from our audit.

Quality of service

- 5.7 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.
- 5.8 If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales ("ICAEW").
- 5.9 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/](http://www.audit-commission.gov.uk/complaints/)

Appendix A

Accounts Risk assessment matrix

	Audit risk identified from planning	Financial Statement Area & Assertion	Audit response
Accounts			
1	<i>International Standards on Auditing [IFRS] (UK and Ireland) presumes that a risk of management override of controls is present in all entities and requires us to respond to this risk. We are also required to consider the need to perform other additional procedures.</i>	<i>All Areas of Financial Statements Completeness Existence/Occurrence Accuracy Cut-Off Valuation Rights and Obligations</i>	<i>We will test the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual. Should further audit procedures be required, we will notify management and the Audit Committee.</i>

Italics = reported in fee letter presented to the Audit Committee in June 2010

Non-italics = new risk/issue

	Audit risk identified from planning	Financial Statement Area & Assertion	Audit response
2	<p><i>International Financial Reporting Standards are being adopted in local government from 2010/11 and requires restatement of prior year comparative figures. There is a risk around transitional arrangements and preparation of the financial statements in compliance with IFRS. Failure to appropriately apply IFRS may impact on the accuracy of a certain balances, income and expenditure totals and disclosures within the financial statements.</i></p> <p><i>In 2009/10, our assessment rated the Council's preparedness as 'Green'.</i></p>	<p><i>All Areas of Financial Statements</i></p> <p><i>Completeness</i></p> <p><i>Existence/Occurrence</i></p> <p><i>Accuracy</i></p> <p><i>Cut-Off</i></p> <p><i>Valuation</i></p> <p><i>Rights and Obligations</i></p>	<p><i>We will continue to work with the Finance section to monitor the Council's progress against implementation of its IFRS plan and management's transitional arrangements. In 2010/11, we will place particular audit emphasis on the following:</i></p> <ul style="list-style-type: none"> <i>• review of service arrangements against IFRIC 12 (service concessions)</i> <i>• review of arrangements against IFRIC 4 (lease arrangements)</i> <i>• consideration of leasing arrangements against IAS 17 (Leases)</i> <i>• review of valuation policies and component accounting for assets under IAS 16 (Property, plant and equipment)</i> <i>• calculation of employee benefits under IAS 19 (Employee benefits)</i> <i>• review of government grants in light of CiPFA's decision to apply IPSAS 23</i> <i>• review of group accounting requirements under IFRS which focuses on ability to control as opposed to actual control</i> <i>• operating segment disclosures under IFRS 8 (Operating segments)</i> <i>• additional, detailed audit procedures are also required in the restatement exercise of comparative balances for year ended 31 March 2009 and 31 March 2010.</i>

Value for money risk assessment matrix

	Audit issue identified from planning	Relevant VFM criteria	Audit response
1	<i>Ensuring that planned efficiency savings are achieved and that the overall financial position of the Council remains balanced. Managing the reduction in income streams and establishing effective exit strategies for those projects where Government funding is due to come to an end.</i>	<i>Financial Resilience Challenging VFM secured</i>	<i>We reported the Council had made good progress with this challenging agenda in our annual audit letter in December 2010. Our conclusions at that time were based on the work we completed under the previous 'Use of Resources' assessment. We will consider the further progress made in line with the Council's priorities for 2010/11.</i>
2	<i>Improving performance further towards the Government's enhanced equalities standard</i>	<i>Challenging VFM secured</i>	<i>The Council published its revised People Strategy in July 2010 and this should underpin achievement of the corporate workforce plan. It is working towards the 'achieving' level of the Government's equalities standard.</i>
3	<p>The Council is dealing with a challenging financial outlook, is reviewing its priorities based on consultation with local people and is taking action to improve performance in certain services. The Government's grant settlement announced for Hastings in December 2010 indicates a reduction in its 'Formula Grant' of 14.8 per cent in 2011/12 and a cumulative reduction of 24.7 per cent (compared to the 2010/11 amount) by 2012/13. The Council estimates the reduction in formula grant to be £1.3 million in 2011/12 and a cumulative reduction of £2.2 million in 2012/13. The settlement compares to the Council's expectations based on its financial modelling that Formula Grant would reduce by 28 per cent over the four year period to 2014/15. The Council will not receive any further Area Based Grant after 2010/11 (when it amounted to £3.8 million).</p> <p>To mitigate the loss of Formula and other Specific Grant income, the Council is due to receive transitional funding from the Government of £2.6 million in 2011/12 and a further £2 million in 2010/13. The amounts should assist the Council in further stabilising its financial position over the medium term.</p>	<i>Financial Resilience Challenging VFM secured</i>	<i>Our VFM conclusion requires us to review the Council's arrangements for securing financial resilience. We will consider the Council's progress towards its 2010/11 budget, its arrangements for preparing the 2011/12 budget and the further development of the medium term financial plan. We will review the Council's approach to identifying and responding to financial risks and opportunities and also review progress made towards efficiency plans and the financial stability of the Council over the medium term. We will also consider the extent to which financial plans support achievement of Council priorities where these have been updated in the year.</i>

	Audit issue identified from planning	Relevant VFM criteria	Audit response
4	While the Council increased the level of the General Reserve as at 31 March 2010, the total amount of general revenue balances and reserves available (£6.4 million as at 31 March 2010) will require careful management given the significant financial risks and uncertainties the Council is facing.	Financial Resilience	We will review the Council's strategy for maintaining its general balances and reserves at a prudent level. We will also review the scope and extent of earmarked reserves maintained as the Council further develops its priorities.
5	In order to meet the performance targets set for the year, the Council has taken action to: <ul style="list-style-type: none"> • continue to reduce the amount of household waste produced • improve performance in the time taken to process both major and minor planning applications • improve the speed of processing new benefit claims and for changes in circumstances. 	Challenging VFM secured	Our value for money risk assessment and conclusion will consider the Council's progress toward its priorities in 2010/11.

Appendix B: Audit requirements

Financial statements

The Code requires us to provide an opinion on whether your financial statements are “true and fair” and have been prepared properly, in accordance with relevant legislation and applicable accounting standards.

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 accounts
- consider the robustness of your accounts preparation processes
- undertake analytical procedures, test transactions and balances and consider the adequacy of the disclosures in your financial statements.

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

We will review the appropriateness and consistency of application of the accounting policies adopted by the Council and ensure that these are consistent with the *Code of Practice on Local Authority Accounting in the United Kingdom 2010/11*.

We will report to you significant qualitative aspects of the accounting practices including the application of the Code or other significant matters relevant to the financial reporting process.

We will also report uncorrected misstatements and material uncertainties relating to going concern.

We will read the other information included in the financial statements and, if appropriate the annual report, to ensure this is consistent, complete and not misleading based on our overall knowledge. We will review your annual governance statement to assess whether it has been presented in accordance with relevant guidance, is adequately supported, that an effectiveness review has been completed, and it is consistent, complete and not misleading based on our overall knowledge.

We will report to you significant matters discussed, or subject to correspondence with management or other employees; and also any significant difficulties that we encountered during the course of the audit.

We will seek written representations from the Council or from other parties to acknowledge and understand the responsibilities for preparing the financial statements, for the internal controls necessary to enable preparation of financial statements that are free from material misstatement whether due to fraud or error, and that we have been provided with access to all information of which you are aware of that is relevant to the preparation of the financial statements.

Where we propose any modifications to the audit opinion or emphasis of matter paragraphs in the auditors' report, we will report this to you along with the reasons for the modifications.

Internal controls and significant financial systems

International Standards on 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.

Where the audit intends to rely on identified controls to reduce risk or the level of detailed testing the auditor must also undertake tests of the operating effectiveness of the relevant controls. The key

financial systems upon which the accounts are based will therefore require additional testing and review in order to arrive at our opinion on the financial statements.

Your significant financial systems are:

- Main accounting
- Cash and bank
- Payments and creditors
- Income and debtors
- Payroll and employment costs
- Information technology
- Council tax
- Housing and council tax benefits
- National Non-Domestic Rates
- Investments and investment income

We will report to management any deficiencies in internal control identified during the audit. Where we identify significant deficiencies in internal control during the audit we will also report those to those charged with governance.

Working with Internal Audit

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

Fraud risk assessment

We have a responsibility to consider specifically the potential risk of material misstatement of your financial statements as a result of fraud and error, including the risk of fraudulent financial reporting.

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” (the Audit Committee).

We will make appropriate enquiries and review the counter fraud arrangements in place 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.

For all 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.

Whole of government accounts (WGA)

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.

Value for money conclusion

The Code requires auditors to issue a conclusion on whether (or not) the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness. This is known as the value for money (VFM) conclusion.

The Commission has reviewed its approach to auditors' VFM work so that from 2010/11 auditors will give their statutory VFM conclusion based on the following two reporting criteria:

- the organisation has proper arrangements in place for securing financial resilience.

- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

The focus of the criteria for 2010/11 are:

- the organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- the organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

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

Local risk-based work

Local risk-based work is proposed to address audit risks relating to the accounts opinion or Value for Money Conclusion where normal levels of work are considered insufficient to fully address risk exposures.

Appendix C: Communication with 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 (UK & Ireland) 260 – Communication with those charged with governance 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 revised ISA does not define 'those charged with governance' as there are such a diverse range of arrangements across all types of entity. However it does state that "The auditor shall determine the appropriate person(s) within the entity's governance structure with whom to communicate." 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 Engagement Partner
- 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
- 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 2011, 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 (UK & Ireland) 260 – Communication with those charged with governance, 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.