



Accountants &
business advisers

Hastings Borough Council

Audit Plan 2011/12

February 2012

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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 and/or the Audit Committee. 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.

We accept no responsibility for any reliance that might be placed on reports and letters for any purpose by third parties, to whom it should not be shown without prior written consent.

[Code of Audit Practice](#)

[Statement of Responsibilities](#)

<http://www.audit-commission.gov.uk/audit-regime/codes-of-audit-practice/pages/statementresponsibilities.aspx>

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 Hastings Borough Council for the 2011/12 financial year. The Plan updates the fee letter issued in June 2011 now that we have concluded our 2010/11 audit. The Plan also considers the work we have undertaken to date to liaise with officers, including the Head of Paid Service; the Chief Finance Officer and the Head of Internal Audit, on the significant risks and other issues the Council is currently addressing.

Scope of the audit

- 1.2 The scope of the audit is determined by the Audit Commission's Code of Audit Practice for Local Government (2010) (the 'Code'), which covers two areas: provide an opinion on the financial statements, and to review the arrangements for securing economy, efficiency and effectiveness in the use of resources (value for money conclusion).
- 1.3 We are also required to audit the Whole of Government Accounts return and to undertake work on specified grant claims and returns.

Significant risks and issues

Financial statements risks

- 1.4 The significant risks we have identified in planning our audit of the Financial Statements are set out in detail in section 3 and Appendix A, and involve in summary:
- management override of controls (this is a 'non-rebuttable' audit risk)
 - revenue recognition (and the risk of fraud)
 - the upgrade of the Council's financial management system (Agresso) in October 2011 and the consequent risk of inaccurate and incomplete transfer of general ledger and subsidiary systems data
 - accounting for transactions involving the Local Authority Mortgage Scheme implemented by the Council in the year
 - accounting for transactions involving the Council's partnership with a Housing Association to increase the supply of rented accommodation in the area.

Other issues

- 1.5 We will consider the appropriateness of the Council's response to the changes indicated by Cipfa's 2011/12 IFRS Code of Practice.

Use of Resources (value for money conclusion)

- 1.6 The Council has continued to develop and then embed its value for money approach over the last three years. We have not identified any significant value for money risks though the reduction in Government funding, the difficult financial outlook and continuing economic pressures are examples of issues we will keep under review in completing our value for money assessment. Issues Hastings is dealing with include:
- the need to achieve the medium term financial plan when income and Government funding are reducing and when transitional funding previously provided by the Government is withdrawn
 - the possibility reserves may reduce further than planned and may not be sufficient to sustain future expenditure plans in the event savings from the corporate efficiency programme are not fully achieved

- achieving the outcomes expected from projects included in the corporate efficiency programme. The programme includes the restructuring of Council departments and the progression of significant partnerships with other Councils which will need to be managed effectively.

Fees

- 1.7 The audit fee for the year is £107,000, which has increased by £5,350 since we issued our Audit Fee Letter to you in June 2011. We have increased the fee because of the significant risks summarised at paragraph 1.4 and the additional audit work necessary to address such risks.
- 1.8 The Head of Paid Service and the Chief Finance Officer have told us the additional, significant audit risks we have identified are understood by the Council and that appropriate legal and accounting advice has been taken to ensure the transactions included in the 2011/12 financial statements for the local authority mortgage scheme and its partnership with a Housing Association follow relevant guidance. Our audit work to date has therefore involved only a limited document review and assessment of the Council's proposals to account for the VAT involved in the transactions with the Housing Association. We discussed the outcome of such work with officers in February 2012.
- 1.9 In the event additional audit work is required, we will prepare a report for the Audit Committee, including the impact on the audit fee.
- 1.10 The assumptions we have made in setting the audit fee are set out in section 4.
- 1.11 We estimate the fee payable for the audit of the Council's grant claims and other Government returns to be £25,000. The fee is payable in addition to the audit fee highlighted above and has reduced compared to our fee letter (£40,000) because the Internal Audit section plans to undertake the detailed review of cases required by the Department for Work and Pensions when auditing the benefits subsidies grant claim.

Key outputs

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

Output	Expected timing
Accounts	
Annual governance report on the financial statements	September 2012
Audit opinion covering the financial statements	September 2012
Opinion on the Whole of Government Accounts return	September 2012
Use of resources	
Value for money conclusion	September 2012
Annual audit letter	November 2012
Grant claims and other returns	
Report to Those Charged With Governance	February 2013

2 Scope of the audit

Code audit

- 2.1 The scope of the audit is determined by the Audit Commission's *Code of Audit Practice for Local Government (2010)* (the 'Code'), which covers two areas:
- provide an opinion on the financial statements
 - review the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.
- 2.2 The financial statements audit requires that we obtain assurance:
- that the accounts comply with statutory requirements
 - that proper practices have been observed in compiling the accounts
 - that they give a true and fair view of the financial position and the expenditure and income for the year
 - the information given in the Statement of Accounts is consistent with the financial statements
 - that the Annual Governance Statement is not inconsistent with our knowledge.
- 2.3 The use of resources audit requires that we review and satisfy ourselves that:
- the organisation has robust systems and processes to effectively manage financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future (financial resilience)
 - the organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity (challenging economy, efficiency and effectiveness).

Whole of Government Accounts

- 2.4 Local authorities are required to prepare information to allow HM Treasury to prepare consolidated Whole of Government Accounts (WGA) based on the statutory financial statements.
- 2.5 The WGA return is audited in accordance with Audit Commission specified procedures and requires additional assurance to confirm that counter-party data is properly and accurately recorded. We provide an assurance report to the National Audit Office to confirm that the WGA return is consistent with the audited financial statements and that it is properly prepared.

Certification of grant claims and returns

- 2.6 Grant-paying bodies may require certification of an Authority's claim for grant or subsidy, or of a return of financial information. The Audit Commission provides general guidance on the certification of claims and returns to auditors and has published good practice in this area. It also provides certification instructions which auditors must follow based on the amount claimed and the auditor's assessment of the control environment for the preparation of the claim or return.
- 2.7 Certification work is not an audit but a different form of assurance engagement designed to provide reasonable assurance, for example, that claims and returns are fairly stated and in accordance with specified terms and conditions.
- 2.8 For all specified grant claims and returns, we will undertake a review in accordance with the certification instruction and express a conclusion whether the claim or return:

- is in accordance with the underlying records (claims and returns above the minimum level of £125,000 and below the threshold of £500,000); or
- is fairly stated and in accordance with the relevant terms and conditions (claims and returns over the threshold of £500,000).

Purpose of the audit plan

2.9 The purpose of this audit plan is to:

- ensure that there is mutual understanding of the respective responsibilities relating to the audit
- provide you with an overview of the planned scope of the audit for the year ended 31 March 2012
- ensure that the areas of potential risk of material misstatement which we have identified are consistent with the areas which you perceive to be the key areas and to promote effective two-way communication between us.

2.10 We will also provide reports to management and Members on the findings of the audit which will focus on the key issues for the Council regarding internal control, financial governance, accounting arrangements and operational performance. We aim to provide management with clear recommendations to assist with governance and service improvements that will add value to the audit.

Co-operation with other bodies

2.11 The *Code* requires co-operation between auditors and other regulatory bodies including the National Audit Office to facilitate an efficient audit. In preparing this plan, we have assumed that the Council has provided us permission to discuss issues relevant to the audit with regulators and other auditors.

3 Risk assessment

- 3.1 We are committed to targeting work to 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 fee. For each of the significant risks identified, we consider the arrangements put in place to mitigate the risk and plan our work accordingly. Current and emerging risks that do not impact on our audit are also discussed with management so that we may add value to the risk assessment process and highlight any areas of concern to the Council.
- 3.2 The determination of significant risks is a matter for auditors' professional judgment. Auditing standards require that in exercising this judgment, auditors exclude the effect of identified controls related to the risk to determine whether the nature of the risk, the likely magnitude of the potential misstatement and the likelihood of the risk occurring are such that they require special audit consideration.
- 3.3 If you consider there to be other significant risks of material misstatement in the financial statements, whether due to fraud or error, or significant deficiencies in arrangements for securing economy, efficiency and effectiveness in the use of resources, please let us know.

Financial statements audit risks

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

Management override

- 3.5 Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing 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.
- 3.6 We will carry out audit procedures to review significant journals and other adjustments in preparing the financial statements, review the reasonableness of assumptions used by management when including accounting estimates, and obtain an understanding of unusual transactions.

Revenue recognition

- 3.7 Auditing standards presume that there are risks of fraud in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue. As a consequence our audit work will be designed to focus on these areas.

Financial management system upgrade

- 3.8 The council upgraded its financial management system (Agresso) from version 5.4 to version 5.5 in October 2011. The upgrade introduced significant changes and required all data in the previous version to be transferred to the new version. This presents a significant audit risk in relation to the accuracy and completeness of the general ledger and subsidiary systems data transferred.
- 3.9 The Agresso update was implemented in conjunction with Rother District Council and Lewes District Council. Rother led the implementation of the project and its Internal Audit service carried out a review of the project management arrangements across the three authorities.

Local Authority Mortgage Scheme

- 3.10 Currently most mortgage lenders are prepared to lend a maximum of about 75 per cent loan to value (LTV), even if the applicant can afford a 95 per cent mortgage. First time buyers therefore find it difficult to provide the necessary deposit to secure a mortgage. As a result many potential home-buyers may remain in social housing. In response to this economic situation Sector Treasury Services launched the Local Authority Mortgage Scheme (LAMS) in March 2011. The scheme aims to:
- ease the demand on social housing, by providing help to first time buyers who would not be able to afford the deposit required to buy a home
 - support the local economy.
- 3.11 The scheme is new to local government and is not, as yet, in wide use, although a number of authorities implemented in 2011/12. We will review the accounting and other advice (legal and technical) taken by Hastings in implementing the scheme and ensure the transactions, which are material to the Council's accounts, are appropriately disclosed as at 31 March 2012.

Partnership working with a Housing Association and provision of rental accommodation

- 3.12 The Council is working with a Housing Association to deliver up to 100 units of housing available to rent in the St. Leonards area by refurbishing empty properties. The refurbishment work is planned to be carried out by the Council, the Housing Association or a Special Purpose Vehicle set up by the Council. The Council also expects to use its compulsory purchase order (CPO) powers to acquire properties for conversion. The properties would then be transferred to the Housing Association to rent to local people.
- 3.13 The scheme is complex and we will need to review the accounting and other advice (legal and technical, including VAT) taken by the Council to ensure transactions included in the 2011/12 financial statements are appropriately accounted for. The partnership involves substantial, material amounts affecting the Council's balance sheet and finances.

Other issues relevant to the audit of financial statements

Changes to the 2011/12 Code of Practice

- 3.14 Cipfa has published the guidance notes accompanying the 2011/12 Code of Practice. No significant changes are proposed in the year though additional guidance relevant to Hastings accounts includes:
- the impact of adopting FRS 30 (Heritage Assets)
 - accounting for and disclosure of business rates supplements
 - new guidance on accounting for the Community Infrastructure Levy (CIL)
 - additional guidance on the definition of a related party
 - a requirement to disclose the number and cost of exit packages.

Updated value for money conclusion risk assessment

- 3.15 We have updated our use of resources risk assessment for 2011/12 to take into account the:
- matters arising from the completion of the 2010/11 audit
 - additional audit knowledge gained since our initial risk assessment which was included in our 2011/12 Audit Fee Letter issued in June 2011.
- 3.16 The Council's arrangements for securing value for money have developed well over the last three years and are effective. Nevertheless, the Council (like most local authorities) is dealing with a challenging financial outlook and is planning to secure significant efficiencies over the next four years to ensure a sustainable financial platform is maintained.
- 3.17 The table below sets out the issues we will be reviewing as a result of our updated risk assessment.

Issue	Planned work
Financial Resilience	
Financial Planning (Medium Term)	
The Council has identified certain risks to achievement of the medium term financial plan. In particular, further reductions in income streams due to the difficult economic outlook; the risk of further reductions in Government funding and the removal of transitional funding previously provided by the Government.	While we do not consider these matters to be significant risks, given the effective financial management arrangements evident at Hastings, our review of financial resilience will consider the continuing sustainability of the Council's financial plans. Our review of economy, efficiency and effectiveness will consider the Council's progress towards its published efficiency programme.
The Council's reserves while sufficient, may reduce further than planned and may not sustain future expenditure plans in the event savings from the corporate efficiency programme are not fully achieved.	
Economy, Efficiency and Effectiveness	
Productivity and Efficiency	
The Council has identified risks to achieving certain outcomes expected from the corporate efficiency programme, particularly as new departmental structures and ways of working with other Councils are implemented in 2012.	While we do not consider these matters to be significant risks, given the effective value for money arrangements evident at Hastings, our review of economy, efficiency and effectiveness will consider the extent of improvement in productivity secured from the corporate efficiency programme and progression of strategic and service delivery partnerships. Our review of economy, efficiency and effectiveness will consider the Council's progress towards its priorities.

4 Fees

- 4.1 The audit fee for the year is £107,000, which has increased by £5,350 since we issued our Audit Fee Letter to you in June 2011. We have increased the fee because of the significant risks summarised at paragraphs 3.8 to 3.13 and the additional audit work necessary to address such risks. We continue to work closely with Internal Audit and other external auditors to minimise the impact of the additional fee. The additional work on the financial systems upgrade will be undertaken simultaneously at the three Councils involved, and the overall cost (£6,450) will be distributed equally.
- 4.2 The Head of Paid Service and the Chief Finance Officer have told us the additional, significant audit risks we have identified are understood by the Council and that appropriate legal and accounting advice has been taken to ensure the transactions included in the 2011/12 financial statements for the local authority mortgage scheme and its partnership with a Housing Association follow relevant guidance. Our audit work to date has therefore involved only a limited document review and assessment of the Council's proposals to account for the VAT involved in the transactions with the Housing Association. We discussed the outcome of such work with officers in February 2012.

Fee summary

Audit area	Actual fee 2010/11	Fee letter 2011/12	Planned fee 2011/12
Financial statements, including WGA	£70,000	£69,000	£69,000
Value for money conclusion	£37,000	£32,650	£32,650
Risk based work: financial systems upgrade	0	0	£2,150
Risk based work specific to Hastings: <ul style="list-style-type: none"> Local Authority Mortgage Scheme Housing Association Partnership VAT review (HA Partnership) 	0	0	£3,200
Total Code audit fee	£107,000	£101,650	£107,000
Audit Commission Rebate (Approx.)	£(9,700)	TBA	TBA
Certification of claims and returns ⁽¹⁾	£30,906	£40,000	£25,000
Grant claims report to those charged with governance	£950	£750	£750

- 4.3 If we need to make further significant amendments to the audit fee during the course of the audit, we will first discuss this with the Chief Financial Officer and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.
- 4.4 As well as the audit fee of £107,000 identified above, the following fees are separately billable:

Questions and objections

- 4.5 We have agreed a protocol with the Council which means officers respond to almost all correspondence from local electors and no additional fee was necessary in 2010/11. Should any questions or objections 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

- 4.6 Fees billed are based on the Audit Commission's grade related rates as set out in the *Work Programme and Fee Scales* on the basis of hours incurred.

- 4.7 We estimate the fee payable for the audit of the Council's grant claims and other Government returns, and reporting the findings of this work to the Audit Committee, to be £25,000. This is a reduction from the estimate provided in our fee letter in June 2011 because the Internal Audit Section is planning to complete the detailed review of subsidies cases required in auditing the benefit subsidies grant claim. The arrangement meant the fee for the audit of the benefit subsidies reduced by about £23,000 in 2010/11 compared to the previous year.

Fee assumptions

- 4.8 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 so that we are able to place full reliance on this work
 - Internal Audit will complete the audit of benefit subsidies cases required by the Audit Commission's grant claim certification instructions
 - you will keep us informed of any significant changes to your main financial systems, procedures or internal controls
 - you will provide the information requested in our records required listing in accordance with the agreed timetable and that there will be no significant departures from the timetable.
 - you will ensure that 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.
- 4.9 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 2011/12 and our consideration of your annual governance statement in your 2010/11 accounts.
- 4.10 If we need to make further significant amendments to the audit fee during the course of the audit, we will first discuss this with the Chief Finance Officer and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee

Billing arrangements

- 4.11 Your audit fee is being billed in four instalments, as shown below:

Month	£
June 2011	25,412.50
September 2011	25,412.50
December 2011	25,412.50
March 2012	30,762.50
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
<p><i>Engagement Partner</i> Robert Grant Email: robert.grant@uk.pkf.com Tel: 020 7065 0170</p>	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, and for liaison with senior management and the Audit Committee.
<p><i>Engagement Manager</i> Stuart Frith Email: stuart.frith@uk.pkf.com Tel: 020 7065 0000</p>	Responsible for overall control of the audit, ensuring timetables are met and reviewing the audit output. Also responsible for managing our accounts and VFM conclusion work and for completion of the Audit Plan, Annual Governance Report and Annual Audit Letter.
<p><i>Supervisor</i> Ronesh Nandha Email: Ronesh.nandha@uk.pkf.com Tel: 020 7065 0000</p>	Responsible for managing our audit fieldwork on site for accounts and value for money.
<p><i>VAT advisor</i> Richard Wild Email: richard.wild@uk.pkf.com Tel: 01473 720744</p>	Responsible for assessing the arrangements in place to manage the Council's responsibilities in respect of VAT.

Timetable

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

Output	Dates
Financial statements	
Review of internal controls	April 2012
Final audit visit	July – August 2012
Audit opinion covering: <ul style="list-style-type: none"> • ‘true and fair’ opinion on the financial statements • information in the Statement of Accounts being consistent with auditor’s knowledge • Annual Governance Statement prepared in accordance with guidance and not inconsistent with auditor’s knowledge 	Clearance meeting date to be agreed. Audit Committee meeting 26 September 2012 Certification deadline 30 September 2012
Opinion on the Whole of Government Accounts return	Submission by 5 October 2012
Use of resources	
Review of economy, efficiency and effectiveness	November 2011 – April 2012
Value for money conclusion	Certification deadline 30 September 2012
Grants	
Audit of grant claims and returns	August – December 2012
Reporting	
Report on any significant deficiencies in internal controls (if issued)	June 2012
Annual Governance Report to the Audit Committee	September 2012
Annual Audit Letter	November 2012
Grants report	February 2013

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.

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 will communicate matters of governance interest that have come to our attention as a result of the performance of the audit. The audit is not designed to identify all matters that may be relevant to you. Communication may take the form of discussions or, where appropriate, be in writing.

5.6 Our contact for communications will be the Chief Finance Officer and the Audit Committee. When communicating with the Audit Committee we will consider all individuals representing those charged with governance as informed and our responsibilities for communicating relevant matters will be discharged.

Matters that are communicated

- 5.7 We will communicate the following matters to you, where applicable:
- significant deficiencies in internal control identified during the audit
 - significant qualitative aspects of the entity's accounting practices including the application of the applicable financial reporting framework
 - significant matters discussed, or subject to correspondence with management or other employees
 - uncorrected misstatements
 - material misstatements that have been corrected by management
 - other significant matters relevant to the financial reporting process
 - material uncertainties relating to going concern
 - written representations that we are requesting from you or from other parties
 - expected modifications to the opinion or emphasis of matter (or other matter) paragraphs in the auditor's report
 - significant difficulties that we have encountered during the course of the audit.
- 5.8 If we identify significant deficiencies in internal controls, we will communicate such deficiencies to you, in writing, as soon as is practicable.

Materiality and triviality

- 5.9 Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. In carrying out our work we will apply an appropriate level of materiality and as such the audit cannot be relied upon to identify all potential or actual misstatements.
- 5.10 For reporting purposes, we consider misstatements of less than £30,000 to be trivial, unless the misstatement is indicative of fraud.

Uncorrected misstatements

- 5.11 We will report to you all uncorrected misstatements that relate to the current financial year (including those arising in previous periods that have an effect on the current year financial statements) and the effect that they have individually, or in aggregate, on the opinion in the auditor's report except for those that are clearly trivial. We will identify material uncorrected misstatements individually. We will request that any uncorrected misstatements be corrected.

Independence and objectivity

- 5.12 Auditors appointed by the Audit Commission are subject to the *Code of Audit Practice and Standing Guidance for Auditors* which include the requirement to comply with International Standards on Auditing (ISA). ISA (UK and Ireland) 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.
- 5.13 In relation to the audit of the financial statements for Hastings Borough Council for the financial year ending 31 March 2012, we are able to confirm that the Audit Commission's requirements in relation to independence and objectivity have been complied with.
- 5.14 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.

Quality of service

- 5.15 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.
- 5.16 If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales (“ICAEW”).
- 5.17 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

Financial statements risk assessment matrix

	Audit risk identified from planning	Financial Statement Area & Assertion	Audit response
Financial statements			
1	<p>Management override</p> <p>International Standards on Auditing (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 by testing 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.</p>	<p>All Areas of the financial statements:</p> <p>Completeness Existence/Occurrence Accuracy Cut-Off Valuation Rights and Obligations</p>	<p>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.</p>
2	<p>Revenue recognition</p> <p>Auditing standards presume that there are risks of fraud in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue.</p>	<p>Occurrence, accuracy and cut-off of income</p>	<p>We will substantively test a sample of key income streams and debtor accruals to ensure that accounting policies have been correctly applied in determining the point of recognition of income and that estimates in debtor accruals are reasonable.</p>
3	<p>Financial management system upgrade</p> <p>The Council upgraded its financial management system (Agresso) during 2011/12. The upgrade introduced significant changes and required all data in the previous version to be transferred to the new version. This presents a significant audit risk in relation to the accuracy and completeness of the general ledger and subsidiary systems data transferred.</p> <p>The Agresso upgrade was implemented in conjunction with Rother District Council and Lewes District Council. Rother District led the implementation of the project and its Internal Audit service carried out a review of the project management arrangements across the three authorities.</p>	<p>All Areas of the financial statements:</p> <p>Completeness Existence/Occurrence Accuracy Valuation</p>	<p>We will review work carried out by Rother's Internal Audit service on project management arrangements across the three authorities. We will also review any work carried out by the finance team to check the accuracy of the data transfer.</p> <p>We will substantively test the general ledger and subsidiary system balances transferred.</p> <p>We will update our understanding of the financial management system and relates controls in place at the Council and ensure controls testing for the year covers the periods before and after the upgrade.</p>

	Audit risk identified from planning	Financial Statement Area & Assertion	Audit response
4	<p>Local Authority Mortgage Scheme</p> <p>Currently most mortgage lenders are prepared to lend a maximum of about 75 per cent loan to value (LTV), even if the applicant can afford a 95 per cent mortgage. First time buyers therefore find it difficult to provide the necessary deposit to secure a mortgage. As a result many potential home-buyers may remain in social housing. In response to this economic situation Sector Treasury Services launched the Local Authority Mortgage Scheme (LAMS) in March 2011. The scheme aims to:</p> <ul style="list-style-type: none"> • ease the demand on social housing, by providing help to first time buyers who would not be able to afford the deposit required to buy a home • support the local economy. <p>The scheme is new to local government and is not, as yet, in wide use, although a number of authorities implemented it in 2011/12.</p>	<p>Capital expenditure Financial instruments Completeness Existence/Occurrence Accuracy Cut-off Valuation</p>	<p>We will review the accounting and other advice (legal and technical) taken by Hastings in implementing the scheme and ensure the transactions, which are material to the Council's accounts, are appropriately disclosed as at 31 March 2012</p>
5	<p>Partnership working with a Housing Association and provision of rental accommodation</p> <p>The Council is working with a Housing Association to deliver up to 100 units of housing available to rent in the St. Leonards area by refurbishing empty properties. The refurbishment works is planned to be carried out by the Council, the Housing Association or a Special Purpose Vehicle set up by the Council. The Council also expects to use its compulsory purchase order (CPO) powers to acquire properties for conversion. The properties would then be transferred to the Housing Association to rent to local people.</p>	<p>Revenue expenditure Revenue income Financial assets Financial instruments Completeness Existence/Occurrence Accuracy Cut-off Valuation</p>	<p>The scheme is complex and we will need to review the accounting and other advice (legal and technical, including VAT) taken by the Council to ensure transactions included in the 2011/12 financial statements are appropriately accounted for. The partnership involves substantial, material amounts affecting the Council's balance sheet and finances.</p>

Value for money risk assessment matrix

	Audit issue identified from planning	Relevant UoR criteria	Audit response
Use of Resources (Issues)			
1	<p>Financial Performance and Efficiency Programme</p> <p>The Council is dealing with a challenging financial outlook, is reviewing its priorities in 2011 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.</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 £2.8 million in 2011/12 and a further £2.1 million in 2012/13. The amounts should assist the Council in further stabilising its financial position over the medium term.</p>	<p>Financial resilience</p> <p>Securing economy, efficiency and effectiveness in use of resources</p>	<p>Our VFM conclusion requires us to review the Council's arrangements for securing financial resilience. We will consider the Council's arrangements for preparing the 2011/12 and 2012/13 budgets 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.</p> <p>We will also consider the extent to which financial plans support achievement of Council priorities where these have been updated in the year.</p>
2	The Council has identified certain risks to achievement of the medium term financial plan. In particular, further reductions in income streams due to the difficult economic outlook; the risk of further reductions in Government funding and the withdrawal of transitional funding previously provided by the Government.	Financial Resilience (Financial Control)	Our review of financial resilience will consider the Council's achievement of corporate and departmental budgets in the year. We will liaise with the Chief Finance officer to review the effectiveness of management action in addressing any significant variances on departmental budgets.
3	The Council's reserves, while sufficient, may reduce further than planned and may not sustain future expenditure plans in the event savings from the corporate efficiency programme are not fully achieved.	Financial Resilience (Financial Planning)	Our review of financial resilience will consider the sustainability of the Council's financial plans.
4	The Council has identified risks to achieving the outcomes expected from the corporate efficiency programme. In particular, the establishment of new departmental and management structures and the enhanced partnership with other Councils are being progressed.	Economy; Efficiency and Effectiveness (Productivity and Efficiency)	Our review of economy, efficiency and effectiveness will consider the Council's progress towards its published efficiency programme and the progression of strategic partnerships..

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.

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.

We will report to you significant aspects of the accounting practices adopted by the Council, including the application of the Code and 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 Statement of Accounts 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 responsibilities for preparing the financial statements, for the internal controls necessary to enable preparation of the 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 auditor’s 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
- Council Tax
- National Non Domestic Rates
- Housing and Council Tax Benefits
- Information technology

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

Working with Internal Audit

In order to achieve an efficient and cost effective audit, we aim to work closely with Internal Audit and to effectively target work and minimise duplication and the overall level of audit resource input.

We have planned the audit on the basis that we will be able to place full reliance on the work of Internal Audit and that its work will be directed to each of the key financial systems noted above.

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 financial statements and our audit programme.

Assessment of compliance with laws and regulations risks

We have a responsibility to consider specifically the potential risk of material misstatement of your financial statements as a result of significant financial transactions that are outside of the powers available to the Council.

The primary responsibility for compliance with relevant laws and regulations is with management and those charged with governance, which will include establishing internal controls to ensure that statutory powers are available to support all significant transactions and actions of the Council.

We will review the internal controls in place and take reasonable steps to inform ourselves of significant financial transactions that are unusual or of questionable legality.

Planned audit approach

Our audit assurance will be derived from a combination of our review of the effectiveness of internal controls (see above) and further substantive audit procedures such as analytical review and detailed tests of transactions and balances where appropriate.

Analytical procedures will focus on the relationship of transactions and balances to supporting evidence and on the reported performance for the year compared to the annual budget, including review of variances where appropriate.

Depending on the nature of the risk of misstatement of classes of transactions and balances, taking into account the strength of internal controls, we will test a sample of transactions for agreement to underlying evidence provided by third-parties and management. This will include a review of the assumptions applied in assessing the financial impact from uncertainties and estimation.

Additional audit effort and procedures will be directed to areas of greater risk such as higher value items, and items subject to a greater degree of uncertainty or estimation.

Reliance on experts and others

Where the financial statements or disclosures include amounts derived from information or estimates provided by experts, the auditor may seek to place reliance on that work in obtaining audit evidence. As part of our work we expect to obtain assurance on the work undertaken by the following management's experts:

- Hyman's Robertson, the East Sussex Pension Fund's actuary, for valuation of the pensions liability and provision of pension fund disclosures
- Wilks Head Eve, the Council's property valuers, for valuations of land and buildings
- Sector, the Council's treasury management advisers, for valuation of financial instruments

Whole of Government Accounts

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 financial statements 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 the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

This is 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 2011/12 is:

- 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 plan a programme of value for money audit work based upon our risk assessment.