

Audit Committee Agenda

Thursday, 17 March 2016 at 6.00 pm

Birch Suite, 5th Floor, Aquila House, Breeds Place, Hastings, TN34 3UY

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Agenda Item 3

AUDIT COMMITTEE

25 JANUARY 2016

Present: Councillors Beaver (Chair), Clark (Vice-Chair), Chowney and Charman

20. DECLARATIONS OF INTEREST

There were no declarations of interest made at this meeting.

21. APOLOGIES FOR ABSENCE

Apologies for absence were noted for Councillor Westley. It was noted that Councillor Webb, the duly appointed substitute for Councillor Westley, was not present.

22. MINUTES OF THE MEETING HELD ON 17 SEPTEMBER 2015

RESOLVED – (unanimously) that the minutes of the meeting held on 17 September 2015 be approved and signed by the Chair as a true record.

23. TREASURY MANAGEMENT AND ANNUAL INVESTMENT STRATEGY 2016/17, INCLUDING QUARTERLY MONITORING REPORTS FOR 2015-16

The Assistant Director – Financial Services & Revenues presented his report to the Committee, to provide the opportunity to consider the draft Treasury Management and Annual Investment Strategy and draw any concerns or recommendations to Cabinet and Council as appropriate, to ensure that there is an effective framework for the management of the Council's investments, cash flows and borrowing activities.

There is a statutory requirement to determine, by full Council, the Treasury Management Strategy Statement, Minimum Revenue Provision (MRP) Policy and Annual Investment Strategy (2016/17) prior to the start of the new financial year.

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

The Assistant Director – Financial Services & Revenues advised on a number of amendments to the report as follows:-

Key changes from the previous year's strategy (Page 8, paragraph 14) include:

- i. A loan to the Foreshore Trust in the sum of £300,000. The rental payments received will meet the debt repayments of the Council.
- ii. The Council is seeking to construct one new factory unit which is likely to involve new borrowing.

Current portfolio position table (page 9): The Total Debt was amended from £11.5m at 31 March 2015 to show £14.2m and from £14.2m showing at 31 December 2015 to £11.5m.

The Assistant Director - Financial Services & Revenues advised that interest rates are unlikely to move during the early part of 2016/17.

AUDIT COMMITTEE

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Councillor Clark sought clarification on the loans and deposits lent to Leeds City Council. The Assistant Director – Financial Services & Revenues advised him that the Council made loans to other Local Authorities, either through brokers or if it had been a regular arrangement, they would have looked to avoid the brokerage charges by dealing direct.

Councillor Beaver asked if the investment strategy is likely to change. The Assistant Director - Financial Services & Revenues replied that investments could be made in property and in other asset classes, and that the Council would be looking at property assets shortly.

Councillor Chowney asked if there were any financial consequences in respect of the European Union Referendum. The Assistant Director - Financial Services & Revenues said it could well impact on the value of Sterling and therefore on interest rates. Bank's credit ratings could be affected.

RESOLVED – (unanimously) that:

- 1. The Committee recommend that the Council approve the Treasury Management Strategy, Minimum Revenue Provision (MRP) Policy and Annual Investment Strategy (2016/17);**
- 2. To accept the report and note that the investments made are in compliance with the investment strategy and the latest advice provided from the Council's Treasury Management advisers.**

24. ANNUAL AUDIT LETTER 2014/15

The Assistant Director - Financial Services & Revenues introduced this report to formally confirm that the Annual Audit Letter 2014/15 had been noted by the Audit Committee.

The purpose of the Annual Audit Letter 2014/15 was to consider the matters raised by the external auditors (BDO). This was circulated to the Audit Committee on 29 October 2015 and posted to the Council's website for the public and members to view.

Councillor Beaver asked if officers were content with the pension contribution made to East Sussex County Council Local Government Pension Scheme. The Assistant Director - Financial Services & Revenues said that pension payments were a large expense for the Council. He advised that a triennial valuation was on-going with new rates applying from 1 April 2017.

Councillor Clark queried the pension contributions, he said Hastings Borough Council contributed an additional c.20% to the pension fund and recommended that staff should be aware of the loss of the contribution to their pension if they were to leave. He recommended that, subject to concurrence by the Staff Management Forum, all employees should receive an "annual reward statement" outlining contributions and additional benefit components of their salary. The Chief Auditor said the feasibility of

AUDIT COMMITTEE

25 JANUARY 2016

producing “reward statements” automatically from the Trent system would be looked into and he would report back to the next meeting.

RESOLVED – (unanimously) that:

1. That the report be noted;
2. That the feasibility of producing an annual reward statement for staff be investigated and reported to the next meeting.

25. CHIEF AUDITOR'S SUMMARY AUDIT AND RISK REPORT

The Chief Auditor presented his report on the audit findings of the National Fraud Initiative exercise, Creditor, Payroll and Insurance matches undertaken earlier in the financial year. The overall audit assessment was A – Good.

RESOLVED – (unanimously) that the Audit Committee accepts the report.

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

None.

(The Chair declared the meeting closed at. 7.10 pm)

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Agenda Item 4



Report to: Audit Committee

Date of Meeting: 17 March 2016

Report Title: **BDO Planning Report to the Audit Committee (Audit for the year ended 31 March 2016)**

Report By: Tom Davies
Chief Auditor

Purpose of Report

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

Recommendation(s)

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

Reasons for Recommendations

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

Introduction

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

Wards Affected

None

Policy Implications

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

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

Additional Information

Appendix A - BDO Planning Report to the Audit Committee
(Audit for the year ended 31 March 2016)

Officer to Contact

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HASTINGS BOROUGH COUNCIL

PLANNING REPORT TO THE AUDIT COMMITTEE
Audit for the year ending 31 March 2016

Date of issue: 9 March 2016

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INTRODUCTION

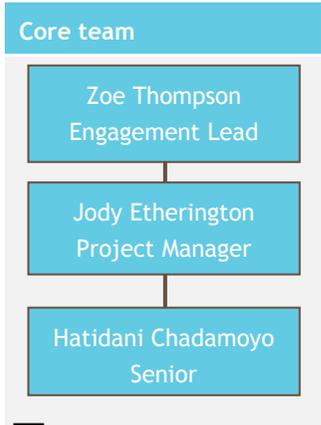
PURPOSE AND USE OF OUR REPORT

The purpose of this report is to highlight and explain the key issues which we believe to be relevant to the audit of the financial statements and use of resources of Hastings Borough Council (“the authority”) for the year ending 31 March 2016. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process. Planning is an iterative process and our plans, reflected in this report, will be reviewed and updated as our audit progresses.

This report has been prepared solely for the use of the Audit Committee and should not be shown to any other person without our express permission in writing.

In preparing this report, we do not accept or assume responsibility for any other purpose, or to any other person to whom it is shown or into whose hands it may come, except when expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so entirely at their own risk.

YOUR BDO TEAM



Name	Contact details	Key responsibilities
Zoe Thompson Engagement Lead	Tel: 01473 320734 zoe.thompson@bdo.co.uk	Oversee the audit and sign the audit report
Jody Etherington Project Manager	Tel: 01473 320790 jody.etherington@bdo.co.uk	Management of the audit
Hatidani Chadamoyo Senior	Tel: 020 7893 3202 hatidani.chadamoyo@bdo.co.uk	Day to day supervision of the on-site audit

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Zoe Thompson is the engagement lead and has the primary responsibility to ensure that the appropriate audit opinion is given on the financial statements.

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

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

Zoe is also responsible for the overall quality of the engagement.

OUR CLIENT SERVICE COMMITMENT TO YOU

CLIENT SERVICE EXPECTATIONS

1

High quality audit service at a reasonable cost.

2

A quality team, with relevant expertise.

3

Clear communication.

4

Concentrating our work on areas of higher risk.

5

Avoiding surprises through timely reporting of issues.

6

Consulting with management to resolve matters early.

7

Meeting deadlines.

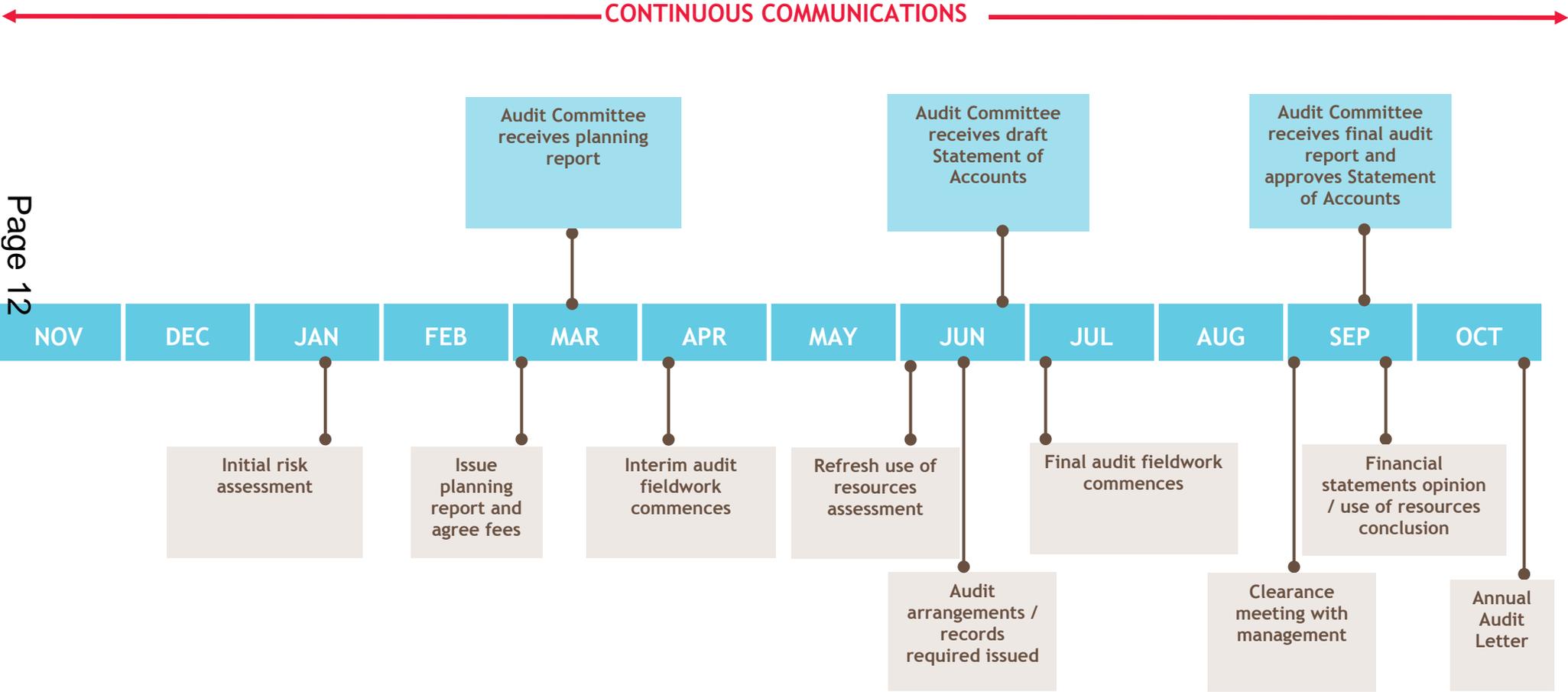
8

Identifying shortcomings in controls and processes.

ENGAGEMENT TIMETABLE

TIMETABLE

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



AUDIT SCOPE AND OBJECTIVES

SCOPE AND OBJECTIVES

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

To form an opinion on whether:

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

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ADDITIONAL POWERS AND DUTIES

6 To consider the issue of a report in the public interest.
To make a written recommendation to the authority where necessary.

7 To allow electors to raise questions about the accounts and consider objections.
To apply to the court for a declaration that an item of account is contrary to law.
To consider whether to issue an advisory notice or to make an application for judicial review.

MATERIALITY

AUTHORITY MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Council	£1,910,000	£57,000

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

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

The clearly trivial amount is based on 3% of the materiality level.

OVERALL AUDIT STRATEGY

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

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

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

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

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

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

Risks and planned audit responses

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

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

- Whether the risk is a risk of fraud
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention

KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk ■ Other issue

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

For the use of resources audit, the NAO has provided sub criteria which we will consider as part of our risk assessment process as follows:

- informed decision making
- sustainable resource deployment
- working with partners and other third parties.

Internal audit

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

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

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Management override	<p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.</p> <p>Under International Standards on Auditing (UK and Ireland) 240, there is a presumed significant risk of management override of the system of internal controls.</p>	<p>Our audit is designed to provide reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent. We consider the manipulation of financial results through the use of journals and management estimates as a significant fraud risk.</p> <p>In every organisation, management may be in a position to override routine day to day financial controls. Accordingly, our audit has been designed to consider this risk and adapt procedures accordingly.</p>	<p>Not applicable.</p>
Revenue recognition	<p>Under International Standard on Auditing 240 “The Auditor’s responsibility to consider fraud in an audit of financial statements” there is a presumption that income recognition presents a fraud risk. For local authorities, the risks can be identified as affecting the completeness, accuracy and existence of income.</p> <p>In particular, we consider there to be a significant risk in relation to the completeness, existence and accuracy of fees and charges income, and non-specific grants (excluding revenue support grant) and contributions income, recorded in the Comprehensive Income and Expenditure Statement.</p>	<p>We will carry out audit procedures to gain an understanding of the authority’s internal control environment for the significant income streams, including how this operates to prevent loss of income and ensure that income is recognised in the correct accounting period.</p> <p>We will test an increased sample of fees and charges income to check whether income has been recorded in the correct period and that all income that should have been recorded has been recorded.</p>	<p>Not applicable.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Valuation of property, plant and equipment, investment properties and heritage assets</p> <p>Page 17</p>	<p>Local authorities are required to ensure that the carrying value of its non-current assets is not materially different to the fair value at the balance sheet date.</p> <p>The authority appoints external valuers to value its land and buildings assets on a rolling 5 year basis. Significant assets, investment properties, and assets where there is evidence of a material change in value are valued annually, such that 77% (by value) of the authority's land and building assets were last valued at 31 March 2015. Heritage assets are valued by an external valuer by reference to insurance valuations, and are revalued using a rolling programme of revaluations.</p> <p>There is an inherent risk over the valuation of non-current assets where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at year-end.</p> <p>In addition, with the adoption of IFRS 13 this year, surplus assets, and in certain circumstances investment properties, must now be valued at their 'highest and best' use, rather than 'existing' use and therefore the correct valuation basis will be need to be applied to these assets.</p>	<p>We will review the instructions provided to the valuers and review the valuers' skills and expertise in order to determine if we can rely on the management experts.</p> <p>We will confirm that the basis of valuation for assets valued in year is appropriate based on their usage. We will confirm that an instant build modern equivalent asset basis has been used for assets valued at DRC.</p> <p>We will review valuation movements against indices of price movements for similar classes of assets and follow up valuation movements that appear unusual against indices.</p>	<p>We will review independent data that shows indices and price movements for classes of assets against the percentage movement applied by the Council.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Pension liability assumptions Page 18	<p>The net pension liability comprises the authority's share of the market value of assets held in the East Sussex Pension Fund and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p>	<p>We will agree the disclosures to the information provided by the pension fund actuary.</p> <p>We will write to the auditors of the East Sussex Pension Fund, to gain assurance over the controls in place for providing accurate membership data to the actuary.</p> <p>We will review the reasonableness of the assumptions used by the actuary in their calculations against other local government actuaries and other observable data.</p>	<p>We will agree the disclosures in the financial statements to the report received from the actuary.</p> <p>We will use the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions used.</p>
	<p>The authority makes allowance for the non-collection of receivables relating to housing benefit overpayments, council tax, Non Domestic Rates (NDR), and trade receivables. These allowances are management estimates based upon assumptions about future collection profiles, historic experience, management judgement, and benchmarking against other similar authorities.</p> <p>There is a risk that the assumptions used may not be appropriate, which could lead to a misstatement of the allowance made.</p>	<p>We will review and challenge the authority's rationale for the provisioning models applied for significant income streams and debtor balances to ensure there is a clear and robust audit trail that reflects historical collection rates by age of debt or arrears.</p>	<p>Not applicable.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Consideration of related party transactions	We need to consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of the accounting standards.	We will document the related party transactions identification procedures in place and review relevant information concerning any such identified transactions. We will discuss with management and review councillors and Senior Management declarations to ensure related party transactions declared have been disclosed and undertake our own completeness testing. This is something we will require you to include in your management representation letter to us.	Companies House searches for undisclosed interests.
Page 19 Classification of payables and receivables	<p>During the prior year audit we identified a number of classification errors within the payables and receivables notes. These were primarily due to inconsistencies in the classification of related Council Tax and NDR balances where amounts are collected on behalf of preceptors.</p> <p>There is a risk that similar errors may occur in the current year's financial statements.</p>	We will review the authority's working papers to support the payables and receivables notes in the draft financial statements and ensure that items tested are correctly classified.	Not applicable.
Narrative reporting	<p>The Council will be required to produce a 'Narrative Report' replacing the Explanatory Foreword in the financial statements.</p> <p>The Narrative Report includes additional information not previously included in the Explanatory Foreword.</p>	<p>We will compare the narrative report against the Code requirements to ensure that all elements of the narrative report are correctly included.</p> <p>We will review the narrative report to ensure consistency with our understanding of the entity and the financial statements.</p>	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Fraud and error	<p>We are required to discuss with you the possibility of material misstatement, due to fraud or error.</p> <p>We are informed by management that there have not been any cases of material fraud or error, to their knowledge.</p>	We will continue to consider throughout the audit process and discuss with management.	Not applicable.
Accounts preparation and disclosure issues	<p>During the prior year's audit we identified a number of disclosure matters within the draft financial statements, as set out in our final report to the Audit Committee. In particular, we noted the inclusion of a number of immaterial and unnecessary disclosures, which could impact upon the understandability of the Statement of Accounts.</p> <p>Whilst the authority did make a number of changes to the final statements, we noted that there was still further scope to declutter the Statement of Accounts and improve the presentation by combining disclosures and reducing the volume of information contained within the notes.</p> <p>We also encountered significant version control issues towards the end of the audit over the Statement of Accounts, which made it difficult to confirm that all agreed adjustments had been processed correctly.</p>	<p>We will review the draft Statement of Accounts against a disclosure checklist to ensure that the presentation complies with the Code requirements. We will request that immaterial information which impacts on the understandability of the Statement of Accounts is removed and we would welcome an early discussion with officers regarding the format and content of the account, prior to the presentation of the first draft for audit, if the authority would find this helpful.</p> <p>We will also agree the final accounts timetable and version control protocols with the finance team in advance of the final audit visit.</p>	Not applicable.

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Accounts preparation and disclosure issues

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - USE OF RESOURCES

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Page 21 Sustainable finances</p>	<p>The authority's Medium Term Financial Strategy was last refreshed in November 2015, and covers the period up to 2018/19. The Strategy assumes further reductions in Government core grant funding of 12% per year over this period, alongside other funding pressures such as annual inflation and pay awards.</p> <p>The forward budget was updated again in February 2016 following receipt of the government funding settlement for 2016/17, and now shows a funding shortfall (after the use of earmarked reserves) of £0.9 million in 2016/17, £1.5 million in 2017/18, and £2.5 million in 2017/18. The budget also assumes net draw down of earmarked reserves for revenue purposes of £1.3 million in 2016/17, following a use of £1.6 million in 2015/16.</p> <p>The authority has implemented a process known as the Priority Income and Efficiency Reviews (PIER) model in order to identify savings and look for opportunities to maximise revenue. This has identified total savings of £1.8 million over the three year life of the MTFS, which are already taken into account within the funding shortfalls described above. It is clear that the authority faces a significant challenge to close the funding gap and is likely to require difficult decisions to be made around service provision and alternative delivery models.</p> <p>The current rate at which earmarked reserves are being drawn down is not sustainable in the medium term, although we acknowledge that certain of these reserves, such as the transition reserve, have been put aside specifically to assist the Council in its transition to a lower spending authority. The pace of change required to deliver a sustainable financial position will again, present a challenge to the authority.</p>	<p>We will review the assumptions used in the Medium Term Financial Strategy and assess the reasonableness of the cost pressures and the amount of Government grant reductions applied. We will monitor the delivery of the budgeted savings in 2015/16 and the plans to reduce services costs and increase income from 2016/17. We will also review the strategies to close the budget gap after 2016/17.</p>	<p>Where relevant, we will refer to external benchmarking data to support the assumptions used within the MTFS and forward budgeting process.</p>

INDEPENDENCE

INDEPENDENCE

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

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to have a bearing on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that engagement leads are made aware of any matters which may reasonably be thought to bear on the firm's independence and the objectivity of the engagement lead and the audit staff. This document considers such matters in the context of our audit for the period ended 31 March 2016.

We have not identified any potential threats to our independence as auditors.

We provide no non audit services to the authority.

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

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

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

FEES

FEES SUMMARY

Our proposed fees, excluding VAT, for the year ending 31 March 2016 are:

	£
Audit fee	46,418
Certification fee (Housing benefits subsidy)	8,844
Total audit and certification fees:	55,262
TOTAL FEES	55,262

Fee invoices will be raised as set out below, following which our firm's standard terms of business state that full payment is due within 14 days of receipt of invoice:

Instalment 1: £11,604.50 (June 2015)

Instalment 2: £11,604.50 (September 2015)

Instalment 3: £11,604.50 (December 2015)

- Instalment 4: £11,604.50 (March 2016)
- Certification of the housing benefits subsidy claim will be billed in stages based upon the stage of completion of the work.

Our fee is based on the following assumptions

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

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

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

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

APPENDIX I: MATERIALITY

CONCEPT AND DEFINITION

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

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

CALCULATION AND DETERMINATION

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

APPENDIX I: MATERIALITY

Continued

REASSESSMENT OF MATERIALITY

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

UNADJUSTED ERRORS

- Page 25
- In accordance with auditing standards, we will communicate to the Audit Committee all uncorrected misstatements identified during our audit, other than those which we believe are 'clearly trivial'.
- Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.
- We will obtain written representations from the Audit Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.
 - There are a number of areas where we would strongly recommend/request any misstatements identified during the audit process being adjusted. These include:
 - Clear cut errors whose correction would cause non-compliance with statutory requirements, management remuneration, other contractual obligations or governmental regulations that we consider are significant.
 - Other misstatements that we believe are material or clearly wrong.
-

APPENDIX II: INDEPENDENCE

INDEPENDENCE - ENGAGEMENT TEAM ROTATION		
SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDED
Zoe Thompson - Engagement lead	1	31 March 2020
Jody Etherington - Project manager	2	31 March 2024

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

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Agenda Item 5



Report to: Audit Committee

Date of Meeting: 17 March 2016

Report Title: Proposed Internal Audit Plan 2016/17

Report By: Tom Davies
Chief Auditor

Purpose of Report

To determine the internal audit plan for 2016/17.

Recommendation(s)

1. That the Audit Committee approves the Internal Audit Plan 2016/17

Reasons for Recommendations

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

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

Introduction

1. The audit programme for 2016/17 has been produced after communication with Assistant Directors, External Audit and reference to the Council's agreed priorities. It includes both new and traditional areas of work. Traditional audits include review of the fundamental financial systems. New areas include Selective Licensing and a review of the procurement process for the electronic car park information boards.
2. The approach to the audit of the fundamental financial systems changed ten years ago following the introduction of International Auditing Standards (IAS) adopted in Local Government in 2006. It remains a key requirement and the main aspect of this work is the need to identify, document and test fundamental financial systems in a particular way. Financial audit still remains the emphasis in the plan.
3. The Operational Risk Registers have been referred to.
4. The plan is developed in relation to planning assumptions reviewed annually and made in accordance with available days.
5. The plan is spread across, financial, operational, value for money and to a lesser extent this year, computer auditing. This is because Information Communications Technology receives a Public Service Network (PSN) audit by the Cabinet Office every year.
6. The specific terms of reference for each audit will be agreed with the relevant Directors and Assistant Directors before commencement of each assignment.
7. As in previous years, audit carries out a lot of ad-hoc work, some of which has and will continue to be significant. In 2016/2017, Internal Audit , will for example:
 - Provide awareness training on Anti Money Laundering and Whistleblowing
 - Conduct a brief Ethical review
 - Ensure the completion of all NFI uploads at the end of September 2016
 - Be involved in the Postal Elections
 - Participate in a reciprocal peer review process
 - Audit contract final accounts
 - Progress Controls Assurance Mapping

	Fundamental and Financial Audits	Risk Reviews, Follow-up and Other
April	Payroll and all benefits and allowances	Review of procurement of the electronic car park information boards and in-house procedures
May		Selective Licensing
June	(To be advised - risk determined)	Homelessness
July		Housing Benefit - Grant Subsidy Work
August	Disabled Facility Grants (DFG)	
September	European Grant Work	
October	Cash and Bank	
November	Main Accounting System	Ongoing follow-up audit of: CCC/TIC Stock Control and extended follow-up of password controls
December		Corporate Credit Cards
January	International Auditing Standards Compliance work covering all fundamental financial controls	Extended follow-up - Business Continuity Plans
February		(To be advised - risk determined)
March		Annual Reporting – Annual Governance Statement, Audit Committee Report to Council and Annual Audit Plan

Assignment	Reason	Outline Scope
Payroll and all benefits and allowances	Cyclical regulatory: Expected by External Audit and special Management request to review in depth all benefits and allowances	Comprehensive as per programme carried out in previous years but extended to cover all staff benefits and allowances
Review of procurement of the electronic car park information boards and in-house procedures	Senior management request for assurance over in-house procurement procedures	Review of in-house procurement procedures
Selective Licensing	Senior management request as is a new function ready for its post implementation review	Comprehensive operational review
Homelessness	Senior management request based on emerging risk	A risk based review focusing on areas of highest risk concerning financial transactions, policy and projects
Disabled Facility Grants (DFG)	Senior management request	Audit of DFG procedures and contract management
Housing Benefit – Grant Subsidy Work	Cyclical regulatory	Comprehensive audit of the HB Grant Subsidy to be carried out in accordance with the DWP audit instructions.
European Grant Work	Senior management request as in part attracts more funding	Financial audit of schemes
Cash and Bank	Cyclical regulatory: Expected by External Audit	Comprehensive as per programme carried out in previous years
Main Accounting System	Cyclical regulatory: Expected by External Audit	Comprehensive as per programme carried out in previous years

Ongoing follow-up of CCC/TIC Stock Control and extended follow-up of password controls	Audit request - Embedding control	Continuation of ongoing work
Corporate Credit Cards	Senior management request	Audit of transactions for probity and record keeping
International Auditing Standards Compliance work covering all fundamental financial controls	Cyclical regulatory: External Audit requirement.	Carried out in accordance with the timescales set and with the audit programmes provided by External Audit.
Extended follow-up: Business Continuity Plans	Audit request - Key risk	To ensure documentation is complete

Wards Affected

None

Policy Implications

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

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

Additional Information

The following internal documents were used:

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

Officer to Contact

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Agenda Item 6



Report to: Audit Committee

Date of Meeting: 17 March 2016

Report Title: Feasibility of producing Reward Statements for employees

Report By: Tom Davies
Chief Auditor

Purpose of Report

To examine the feasibility of producing Reward Statements for employees.

Recommendation(s)

- 1. To note that an Employee Benefits Flyer is a work in progress.**

Reasons for Recommendations

It was unanimously resolved at the Audit Committee meeting of 25 January 2016, that the feasibility of producing an annual reward statement for staff be investigated and reported to the next meeting.

Introduction

Background

1. At the previous Audit Committee meeting, Councillor Clark queried the pension contributions made by Hastings Borough Council. He said Hastings Borough Council contributed an additional c.20% to the pension fund and recommended that staff should be aware of the loss of this contribution to their pension, if they were to leave. He recommended that, subject to concurrence by the Staff Management Forum, all employees should receive an “annual reward statement” outlining pension contributions and additional benefit components of their salary. The Chief Auditor said the feasibility of producing “reward statements” automatically from the Trent system would be looked into and he would report back to the next meeting.

Rationale

2. The rationale for staff receiving a personalised Total Rewards Statement is convincing - to attract the best people and to retain critical skills employees:

Most workers never realise the cost to the organisation of the employer pension contribution, work/life benefits and holiday entitlement.

The cost of these and other employer-provided benefits adds up to a total value and often goes unrecognised and underappreciated.

Feasibility

3. The Chief Auditor consulted the staff in People, Customer and Business Support and was informed that the Payroll system, Midland Trent, does not have the ability to automatically produce Total Reward Statements. The main problem is that it doesn't have pension data to display for recipients.
4. The employer's contributions to pension and Additional Voluntary Contributions (AVC's) can be difficult for a lay person to understand because the calculations are unique to each individual and dependent on their individual circumstances. This is why the annual pension statement from the Pensions Authority is more informative.
5. We are reliant upon the Pension Authority to produce the data, which is always a year out of date, so we are only able to replicate the pension statement which has already been provided.
6. Not all pay/rewards are deemed pensionable.
7. The Chief Auditor also checked with Accountancy to see if anything could be produced automatically from the core finance system (AGRESSO). However, this is not possible as Agresso uses summary data feeds.
8. Whilst it is recognised that the monthly online payslips show most of the financial benefits and the annual benefit statement from ESCC Pensions Administrator shows information on pension, lump sum, survivor pension and death in service

benefits, it is accepted that these documents do not have the same impact as a single clear Total Reward Statement.

Alternative options

Manual production

9. There is an option of manually producing Total Rewards Statements but this has to be ruled out as it would involve extracting data from Midland Trent on an individual by individual basis. This would be a major project and would take two part-timers up to four months each to extrapolate the data and prepare Total Reward Statements. In addition, this would generate lots of pension queries which People, Customer and Business Support would not be able to answer as they are not the Pension provider. The team are also unable to provide pension advice as they are not Independent Financial Advisers.

Outsource the task

10. There are companies that provide this service, normally to only very large organisations but the cost is likely to be prohibitive. (American Express, NHS etc.)

Compromise solution

11. The People, Customer and Business Support service recognises the advantages of demonstrating the benefits offered as an aid to recruitment. It is currently producing an environmentally compatible electronic flyer using user friendly language and majoring on the pension benefits.
12. The flyer is considered an effective document because it also includes the non-quantifiable benefits, for example, flexible working, employee assistance programme (EAP) etc. and reminds employees of all the benefits that are available, not just the ones they are receiving.
13. In addition to pay and pensions, the draft employee benefits flyer lists around 12 other benefits for staff.
14. It is a work in progress and will be sent to Members when finalised. It is expected to be launched in May 2016.

~~~~~end~~~~~

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**Wards Affected**

None

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**Policy Implications**

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

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

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**Additional Information**

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**Officer to Contact**

Officer to Contact: Tom Davies  
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Officer Telephone Number: 01424 451524

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# Agenda Item 7



**Report to:** Audit Committee

**Date of Meeting:** 17 March 2016

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

**Report By:** Tom Davies  
Chief Auditor

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## **Purpose of Report**

To inform the Audit Committee of the key findings from the Council Tax, Treasury Management, Software Licence Controls and Creditors audits.

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## **Recommendation(s)**

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

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## **Reasons for Recommendations**

To monitor levels of control within the organisation.

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**Summary Report**  
**Report to Audit Committee**  
**Council Tax (undertaken by Mazars)**

**Executive Summary**

This report details the internal audit of procedures and controls in place at Hastings Borough Council for the Council Tax function. The audit has been undertaken in accordance with the 2015/16 Internal Audit plan as approved by the Audit Committee on 9th March 2015.

Management should be aware that our internal audit work was performed in accordance with the Public Sector Internal Audit Standards, which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.

Our internal audit testing was performed on a judgemental sample basis and focussed on the key controls mitigating risks. Internal audit testing is designed to assess the adequacy and effectiveness of key controls in operation at the time of the audit.

**Background**

The Council Tax function is administered by the Revenues and Benefits Service within the Corporate Resources and Governance Directorate. The Revenues and Benefits Service includes a small team of generic Local Taxation Officers who work on both Council Tax and Business Rates; they administer chargepayers' accounts and carry out recovery action in respect of arrears.

Council Tax rates for 2015/16 were approved by the Cabinet on 16th February 2015 and then approved by the full Council on 25th February 2015. The total annual charge for a Band D property for 2015/16 is £1,673.24, of which £240.33 relates to Hastings Borough Council. The total collectable debit as at 31st October 2015 was £42,766,947 (in respect of 43,019 properties). The collection rate at 31st October for the year to date was 70.60%, which was below the target of 72.30% but similar to the collection rate at the same stage in 2014/15 (70.96%). The final collection rate for 2014/15 (96.47%) exceeded the target of 96.00%.

Entitlement to single person discounts is reviewed annually by Northgate. Other discounts, exemptions and disablement reductions are reviewed annually by in-house staff. The status of empty properties is reviewed annually by Capacity Grid. Council tax arrears are recovered by various means, including payment arrangements, attachments of earnings and benefits and the placing of legal charges on properties. Arrears cases are also referred to an enforcement agent (Rossendales Ltd) for further recovery action.

## Summary of Findings

### Audit Opinion: Satisfactory Assurance

While there is a basically sound system of internal control, there are weaknesses which put some of the client's objectives at risk.

### Key Findings

There are no recommendations arising as a result of our work in the following areas:

- Areas of staff responsibility and maintenance of an appropriate separation of duties
- Billing provisions;
- Payment options provided;
- Reconciliation of the debit to the Valuation List and any amendments notified by the District Valuer;
- Posting of collections, investigation of suspense items and monitoring of collection rates achieved;
- Processing of refunds;
- End of year reconciliatory processes;
- Individual liabilities and the granting of discounts in respect of Single Persons and second homes;
- Recovery and Enforcement actions, and;
- Management Information.

We have identified two specific areas where improvements in controls, or the operation of existing controls, could be made and these are summarised below. We have commented in detail on these within the body of the report and we would ask you to consider the recommendation made.

### Council Tax Write-Offs

The current write-off policy for Council Tax debts does not specify the frequency of bulk write-offs. The policy refers to post holders who do not appear in the current organisational structure. It was established that no bulk write-offs have been processed during 2015/16. One recommendation has been made to address these issues.

### Claims in Respect of Revenues Staff

It was established that there was no staff protocol for managing possible conflicts of interest in place. One recommendation has been made to address this issue.

**Summary Report**  
**Report to Audit Committee**  
**Treasury Management (undertaken by Mazars)**

**Executive Summary**

This report details the internal audit of procedures and controls in place at Hastings Borough Council for the Treasury Management function. The audit has been undertaken in accordance with the 2015/16 Internal Audit plan as approved by the Audit Committee on 9th March 2015.

Management should be aware that our internal audit work was performed in accordance with the Public Sector Internal Audit Standards, which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.

Our internal audit testing was performed on a judgemental sample basis and focussed on the key controls mitigating risks. Internal audit testing is designed to assess the adequacy and effectiveness of key controls in operation at the time of the audit.

**Background**

The Treasury Management function is administered by the Accountancy Team within the Corporate Resources and Governance Directorate. The Treasury Management Practices (TMPs) set out roles and responsibilities and provide an overview of Treasury activities. TMP1 describes the risk management framework in place. There are three designated “dealers” for Treasury transactions (shortly to be increased to five) and four senior members of staff who have authority to approve Treasury transactions.

The Council’s cash position is reviewed daily and temporary investments and borrowings are arranged where necessary. Counterparties for Treasury transactions are selected in accordance with the Council’s Treasury Management Strategy and Investment Strategy, which are reviewed annually and approved by the Audit Committee, Cabinet and full Council. Treasury staff refer to weekly credit rating lists provided by the Council’s Treasury advisers (Capita Asset Services Ltd). The Council’s need for new long-term borrowings is reviewed regularly in conjunction with the Treasury advisers. All current long-term loans have been obtained from the Public Works Loans Board.

The Audit Committee and Cabinet receive mid-year and year-end reports on Treasury activities. The mid-year report for 2015/16 stated that the Council’s long-term loans amounted to £14.2 million (i.e. within the Council’s borrowing limit of £18.5 million). Temporary investments totalled £28.3 million, and the average rate of return on investments was 0.88% including the Local Authority Mortgage Scheme (LAMS) or 0.68% excluding LAMS.

Treasury transactions are recorded on Logotech software. An officer independent of the Treasury function reconciles balances on Logotech with the general ledger (Agresso) each month and also carries out monthly bank reconciliations.

## Summary of Findings

### Audit Opinion: Satisfactory Assurance

While there is a basically sound system of internal control, there are weaknesses which put some of the client's objectives at risk.

### Key Findings

There are no recommendations arising as a result of our work in the following areas:

Loans Received;  
Loan Repayments;  
Interest Charges;  
Authorisation of Loans and Investments;  
Income from Investments;  
Segregation of Duties;  
Fidelity Insurance Cover;  
Risk Assessments;  
Treasury Management and Annual Investment Strategy;  
Retention of Key Records and  
Business Continuity.

We have identified one specific area where improvements in controls, or the operation of existing controls, could be made and these are summarised below. We have commented in detail on these within the body of the report and we would ask you to consider the recommendation made.

### Policies and Procedures

It was established that although a set of Treasury Management Practices (TMPs) is in place, Treasury staff do not have access to detailed procedure notes. One recommendation has been made to address this issue.

**Summary Report**  
**Report to Audit Committee**  
**Software Licence Controls**

**Background Information**

The main software companies routinely carry out audits of the majority of their suppliers, usually through the services of a third party, the Business Software Alliance (BSA). Under-licensing detected usually results in penalties, fines or out of court settlements typically running into tens of thousands of pounds. Ensuring that an organisation is adequately licensed at all times can become a complex task. A solution is to purchase an effective Software Asset Management (SAM) system to not only avoid fines but to enable us to identify which of our licences are in use and which ones aren't, so that a decision can be made whether to re-deploy or retire them.

Hastings Borough Council has purchased Snow Licence Manager (Snow) which works across all software products and is an accredited MS (Micro Soft) Gold partner.

**Audit Conclusion**

**Overall Audit Assessment: A – Good.**

Controls are in place and work effectively. There are no significant audit concerns. There are no high recommendations made.

**Key Findings**

Hastings Borough Council properly manages all of its software licences completely and effectively by the Information Communications Technology Service through Snow Licence Manager.

**Management Response**

We agree with the report.

**Summary Reports**  
**Report to Audit Committee**  
**Creditors**

**Background**

Creditors section processed during 2014/15, 15,887 BACS transactions totalling £30.5m and 225 cheques worth £418,035. 98.6% of payments are made by BACS which is the most secure and efficient method of payment.

**Audit Conclusion**

**Overall Audit Assessment: A – Good.**

Controls are in place and work effectively. There are no significant audit concerns. There are no high recommendations made.

**Key Findings**

The Creditors system is administered effectively and efficiently.

Whilst the basic control framework has been in place for a number of years, a few medium recommendations have been made which should further enhance control.

The Creditors section is largely paperless. The working practices are constantly being re-assessed and updated to ensure that there is the most efficient and productive use of the systems available.

**Management Response**

We agree the findings.

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**Wards Affected**

None

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**Policy Implications**

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

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

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**Additional Information**

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**Officer to Contact**

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