

Audit Committee Agenda

Monday, 9 March 2015 at 6.00 pm

Town Hall, Queen's Square, Priory Meadow, Hastings, TN34 1QR.

If you are attending the Town Hall for this meeting, please enter the building via the Queens Road entrance opposite the cinema.

For further information, please contact Emily Horne on 01424 451719 or email: ehorne@hastings.gov.uk

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Agenda Item 3

AUDIT COMMITTEE

21 JANUARY 2015

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

19. APOLOGIES FOR ABSENCE

The Chair welcomed the new external auditor, Mr Leigh Lloyd-Thomas, who has replaced Robert Grant, BDO Partner (Public Sector Assurance) and Councillor Westley who has replaced Councillor Webb. He thanked Councillor Webb for his effort and contribution and the Committee for rescheduling the date of the meeting.

20. DECLARATIONS OF INTEREST

There were no declarations of interest made at this meeting.

21. MINUTES OF THE MEETING HELD ON 25TH SEPTEMBER 2014

RESOLVED – (unanimously) that the minutes of the meeting held on 25 September 2014 be approved and signed by the Chair as a true record.

22. NOTIFICATION OF ANY ADDITIONAL URGENT ITEMS

None.

23. AUDIT OF HOUSING BENEFIT SUBSIDY CLAIM - YEAR ENDED 31 MARCH 2014

The Head of Finance introduced his report setting out audit of the Housing Benefit Subsidy claim undertaken by external audit. The BDO report summarises the matters arising from the certification of the Housing Benefit Subsidy Claim for the financial year ended 31 March 2014. The report also included the amount of fees incurred.

BDO partner advised that whilst the 2013/14 claim was qualified, there was just one minor adjustment on the final return.

The Head of Finance said there had been a better performance level of testing during the last year, this had reduced the level of work between external and internal audit and had kept the cost of external audit down.

Given the number of claims and movement of claimants combined with the reduction in the administration grant and staffing, Councillor Birch acknowledged that it was very positive result that level of discrepancy was small.

RESOLVED – (unanimously) that the Audit Committee accept the External Auditor's Report on the Audit of the Housing Benefit Subsidy Claim for the year ended 31 March 2014.

AUDIT COMMITTEE

21 JANUARY 2015

24. ANNUAL AUDIT LETTER 2013-2014

The Head of Finance presented his report on the external auditor's Annual Audit Letter 2013-2014.

The external auditor is required to report the contents of the Annual Audit Letter under the Audit Commission's Code of Audit Practice.

The letter was copied to all members in October and placed on the Council's website.

Councillor Westley proposed that the Committee amend the recommendation as set out in the resolution below. This was seconded by Councillor Clark and agreed by the Committee:-

RESOLVED – (unanimously) that the audit committee accepts the report.

25. TREASURY MANAGEMENT - MID YEAR REPORT 2014-15

The Head of Finance presented his report to the Committee, to provide the opportunity to scrutinise the Treasury Management activities and performance of the last financial year. A similar report will be considered by Cabinet along with any recommendations made by the Audit Committee.

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

The Head of Finance advised that interest rates remained low and that they had borrowed slightly less this year than anticipated because the Coastal Space regeneration project achieved 38 units of the 51 projected consequently requiring less borrowing. He reassured the committee that the Council's investments were regularly monitored and there was no reason to change the strategy on when or how investments were made.

Councillor Westley proposed that the Committee amend recommendation no.2 as set out in the resolution below. This was seconded by Councillor Clark and agreed by the Committee:-

RESOLVED – (unanimously) that the Audit Committee:-

- 1. Recommend to Cabinet that the Strategy remains unaltered.**
- 2. Accept that the investments made are in compliance with the investment strategy and the latest advice provided from the Council's Treasury Management advisers.**

26. TREASURY MANAGEMENT AND ANNUAL INVESTMENT STRATEGY 2015-2016

AUDIT COMMITTEE

21 JANUARY 2015

The Head of Finance presented a report to the Committee on the Treasury Management and Annual Investment Strategy 2015/16. The purpose of the report was to enable the Audit Committee to scrutinise the report and draw any concerns or recommendations to Cabinet on 16 February 2015 and full Council on 25 February 2015 as appropriate and to ensure there is an effective framework for the management of the Council's investments, cash flows and borrowing activities.

The report was presented in compliance with the requirements of the CIPFA Code of Practice for Treasury Management in the Public Services, which represents best practice and compliance with statutory requirements.

The Committee were informed of three key changes to the strategy:

- i. The third Local Authority Mortgage Scheme did not proceed partly due to the introduction of the Government's help to buy scheme.
- ii. The loan value in regards to Amicus Horizon and the Coastal Space Regeneration project was reduced and requested later than originally planned which in turn will reduce the Minimum Revenue Provision (MRP) required.
- iii. That investment returns are expected to remain fairly consistent rather than continuing to reduce.

In addition, an amendment was noted to the report on paragraph 62, the level of investment with Lloyds bank has increased from £5 million to £7½ million because it was considered to be a safer investment.

Councillor Birch sought a view on municipal bonds from the Head of Finance. The Head of Finance said the municipal board agency had been in touch and had visited the council; the scheme was not up and running yet. While it is still available, the Public Works Loan Board (PWLB) is offering the best rates with the ability to reschedule debt if required.

Councillor Beaver asked the Head of Finance whether there is a plan to sell the capital assets of the borough. The Head of Finance confirmed that we have a disposal plan as agreed when determining the budget.

RESOLVED – (unanimously) that the Audit Committee recommend that Cabinet approve the Treasury Management Strategy, Minimum Revenue Provision (MRP) Policy and Annual Investment Strategy (2015/16).

27. UPDATE ON COUNTER-FRAUD BID OUTCOMES AND STEPS TAKEN TO MITIGATE NON-BENEFIT FRAUD

The Chief Auditor presented his report on the results of the 2 counter-fraud bids. These are 'Fighting Fraud in East Sussex' and 'Council Tax Reduction Review Service (CTRRS)'. Both bids were successful. In addition, the Government has announced a further fund, Fraud and Error Reduction Incentive Scheme (FERIS) available to assist councils to combat fraud and error, which the council is submitting a bid for.

AUDIT COMMITTEE

21 JANUARY 2015

Councillor Westley sought assurance that recovery of overpayment following prosecution would be commensurate with the defendant's ability to pay. The Chief Auditor confirmed that while Housing Benefit is still administered by Hastings Borough Council, we determine with the DWP the cases for prosecution. Recovery arrangements remain the responsibility of the Council.

Councillor Westley proposed that the Committee amend the recommendation as set out in the resolution below. This was seconded by Councillor Clark and agreed by the Committee:-

RESOLVED – (unanimously) that the audit committee accepts the report.

28. CHIEF AUDITOR'S SUMMARY AUDIT AND RISK REPORT

The Chief Auditor presented his report on the recent findings of the Housing Benefit and Council Tax Reduction, Debtors, Non-Domestic Rates and New Pension Scheme audits.

Councillor Clark enquired whether the change allowing businesses to pay their rates to the Council over 12 months instead of 10 as previously allowed, impacted on cash flow. The Head of Finance informed Councillor Clark that the 'in year' collection rate was as predicted and the 'prior year debt collection' performance was far better than expected.

Councillor Westley asked whether the additional cost to the Council since overtime had become pensionable outweighed the reduction as newly elected councillors can no longer be part of the pension scheme. The Head of Finance confirmed that the savings as councillors came out of the pension scheme considerably exceeded the additional cost of pensionable overtime payments. There will be more savings following the elections in May 2015 and this has been factored into the 2015/16 budget and 2016/17 forward plan.

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

(The Chair declared the meeting closed at. 7.40 pm)

Agenda Item 4



Agenda Item No:

Report to: Audit Committee

Date of Meeting: 9 March 2015

Report Title: External Audit Plan to the Audit Committee (Audit for the year ended 31 March 2015)

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, the significant risks that impact on the audit and the planned work in response to those risks. It also provides a timetable for the key outputs of that 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

Area(s) 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

Background Information

Appendix A - External Audit Plan to the Audit Committee
(Audit for the year ended 31 March 2015)

Officer to Contact

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HASTINGS BOROUGH COUNCIL

AUDIT PLAN TO THE AUDIT COMMITTEE
Audit for the year ending 31 March 2015

24 February 2015

EXECUTIVE SUMMARY

We are pleased to present our Audit Plan for the year ending 31 March 2015. This plan summarises the work that we propose to undertake in respect of our audit of Hastings Borough Council for the 2014/15 financial year.

Significant Risks

Our audit is designed to respond to significant risks and identify where we intend to focus our resources in providing our opinion on the financial statements and our value for money conclusion. Summarised below are the significant risks we are currently aware of:

FINANCIAL STATEMENTS

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.

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 stated accounting policies or from an inappropriate use of estimates in calculating revenue.

In the previous year we noted that the basis of valuation for land and buildings assets valued at Depreciated Replacement Cost had incorrectly applied an 'instant build' approach at 31 March 2013 as required by the Code. The Council intends to obtain a full revaluation of all land and buildings at 31 March 2015.

USE OF RESOURCES

The update to the Medium Term Financial Strategy to 2017/18 has forecast significant cost pressures and reduced Government funding. Some of the funding pressures are addressed through the PIER savings plan and planned utilisation of reserves, although a budget gap of £0.5 million remains each year which has been closed by drawing down against the Council's earmarked Transition Reserve.

Identifying the required level of savings will be a challenge and is likely to require difficult decisions around service provision and alternative delivery models.

Fees

The proposed audit fee for the year is £61,890 plus VAT, which agrees to the updated scale fee published by the Audit Commission.

Our Planning Letter previously reported a scale fee of £60,990. The Commission has since consulted on rebasing the Code audit fee from 2014/15 for the work previously undertaken as part of the certification work on NDR income and required to support the audit of the accounts. As a result, the Code audit fee has been increased for all district councils by £900.

Key outputs

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

REPORT	DATE
Report on any significant deficiencies in internal controls, if required, based on the results of our interim audit visit	May 2015
Final report to those charged with governance	17 September 2015 Audit Ctte meeting
Independent auditor's report including: <ul style="list-style-type: none"> Opinion on the financial statements Value for money conclusion Certificate 	By 30 September 2015
Assurance statement on the Whole of Government Accounts return	By 7 October 2015
Annual Audit Letter	October 2015

SCOPE OF THE AUDIT

Purpose of the audit plan

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 ending 31 March 2015
- Ensure that the areas of potential significant 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.

We will also provide a report to management and those charged with governance on the findings of the audit which will focus on the significant matters arising from the audit of the Council regarding internal control, financial governance and reporting and accounting arrangements. We aim to provide management with clear recommendations that will add value to the Council.

Code audit

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: providing an opinion on the financial statements, and reviewing the arrangements for securing economy, efficiency and effectiveness in the use of resources (value for money conclusion).

Respective responsibilities

Our responsibilities, as auditors, in relation to the audit of the financial statements and other Audit Commission requirements are set out below. The audit of the financial statements does not relieve you of your responsibilities which are outlined in the Statement of Responsibilities of Auditors and Audited Bodies (2010) available from the Audit Commission's website.

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.

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

Our contacts 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.

Financial statements

The financial statements audit requires that we obtain assurance:

- That the financial statements give a true and fair view of the financial position of the Council at the year end and the expenditure and income for the year
- That the financial statements have been prepared properly in accordance with relevant legislation and the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom
- That the information given in the explanatory foreword in the Statement of Accounts is consistent with the financial statements
- That the Annual Governance Statement meets the disclosure requirements and is not misleading or inconsistent with our knowledge.

Internal controls

As part of our audit we obtain an understanding of the Council's system of internal control sufficient to plan the audit. We assess the adequacy of the design of specific controls that respond to significant risks of material misstatement and evaluate whether those controls have been implemented. Where we intend to place reliance on particular controls for the purposes of our audit, we will carry out procedures to test the operating effectiveness of those controls and use the results of those procedures to determine the nature, timing and extent of further audit procedures to be performed.

In order to achieve an efficient and cost effective audit, we aim to work closely with internal audit to 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 where they intend to provide assurance over key controls within the financial systems.

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

Misstatements due to fraud

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 the Audit Committee.

We have a responsibility to consider specifically the potential risk of material misstatement of your financial statements as a result of fraud including the risk of fraudulent financial reporting. We have discussed possible risk of material misstatement arising from fraud with the Chief Finance Officer and Head of Internal Audit.

We will write to the Chair of the Audit Committee to request confirmation of how the Committee oversees management processes to identify and respond to the risk of fraud, and whether there is knowledge of any actual, suspected or alleged frauds affecting the Council other than those reported by management.

Please let us know if there are any other actual, suspected or alleged instances of fraud of which you are aware.

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.

Materiality and triviality

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.

For planning purposes, we have set materiality at £1.65 million (2% of average gross expenditure in the Comprehensive Income and Expenditure Statement excluding non-recurrent expenditure).

For reporting purposes, we consider misstatements of less than £33,000 to be trivial, unless the misstatement is indicative of fraud. We are required to bring to your attention unadjusted audit differences that are more than trivial that the Audit Committee are required to consider and we will request that you correct them.

Whole of Government Accounts

Local authorities are required to prepare information in the Data Collection Tool (DCT) to allow HM Treasury to prepare consolidated Whole of Government Accounts (WGA) based on the statutory financial statements.

The Council's return is below the threshold for full audit and therefore we undertake limited testing to agree the consistency of property, plant and equipment and pension balances included in the DCT.

Use of resources

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 (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 has proper arrangements for challenging how it secures economy, efficiency and effectiveness (prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity).

Our work will include reviewing the Council's medium term financial strategy and proposals to deliver the necessary savings in the coming years in response to expected reductions in Government grant funding for local authorities.

Engagement partner

Leigh Lloyd-Thomas is the engagement partner and is the person in the firm who is responsible for the audit engagement and its performance and for the report that will be issued on behalf of the firm.

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 Leigh in the first instance. Alternatively you may wish to contact our Managing Partner, Simon Michaels. Any complaint will be investigated carefully and promptly. If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales ("ICAEW").

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/about-us/contact-us/complaints>

Upon the demise of the Audit Commission on 31 March 2015, Public Sector Audit Appointments Ltd (a company created by the Local Government Association) will take over responsibility for audit appointments.

Independence and objectivity

We are required 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.

In relation to the audit of the financial statements for the financial year ending 31 March 2015, we are able to confirm that the Audit Commission's requirements in relation to independence and objectivity have been complied with and we are not aware of any relationships that would affect our independence. Should this change we will update you accordingly.

Future audit arrangements

The Local Audit and Accountability Act 2014 received Royal Assent on 30 January 2014. The Act makes it possible for the Audit Commission to close, in line with Government expectations, on 31 March 2015.

There will be a new framework for local public audit, due to start after the Audit Commission's current contracts with audit suppliers end in 2016/17, or potentially in 2019/20 if all the contracts are extended. Public Sector Audit Appointments Ltd will manage the existing contracts through this period.

Several of the Audit Commission's functions will continue after its closure. The Local Audit and Accountability Act gave the Comptroller and Auditor General a duty to prepare and issue Codes of Audit Practice and guidance to auditors; and a power to carry out examinations into the economy, efficiency and effectiveness with which relevant authorities have used their resources. The NAO has consulting on and issued a revised Code of Audit Practice to come into effect from 2015/16.

The Act also provides for the Audit Commission's data matching powers, and therefore the National Fraud Initiative, to transfer to the Cabinet Office. The government has announced that the Commission's counter-fraud function will transfer to a new public

sector 'Counter Fraud Centre' to be established by the Chartered Institute of Public Finance and Accountancy.

RISK ASSESSMENT

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 fees. The determination of significant risks is a matter for auditors' professional judgement.

For each of the significant risks identified, we consider the arrangements put in place to mitigate the risk and plan our work accordingly. If you consider there to be other significant risks of material misstatement in the financial statements or, arrangements for securing economy, efficiency and effectiveness in the use of resources, whether due to fraud or error, please let us know.

Summarised below are the significant audit risks that impact on our audit of which we are currently aware.

FINANCIAL STATEMENTS			
RISK	RISK DETAIL	ACCOUNTS AREA AND ASSERTIONS	AUDIT RESPONSE
MANAGEMENT OVERRIDE	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.	Financial statement level risk across all account headings and assertions	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	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 stated accounting policies or from an inappropriate use of estimates in calculating revenue.	Existence, completeness and accuracy of income	We will substantively test a sample of income received and debtor accruals to ensure that accounting policies have been correctly applied in determining the point of recognition of income.
LAND AND BUILDINGS VALUATIONS	In the previous year we noted that the basis of valuation for land and buildings assets valued at Depreciated Replacement Cost had incorrectly applied an 'instant build' approach at 31 March 2013 as required by the Code. The Council intends to obtain a full revaluation of all land and buildings at 31 March 2015.	Valuation of land and buildings	We will review the competence, capabilities and objectivity of the valuer and review the appropriateness of the methodology applied for land and buildings valuations. We will assess the reasonableness of the valuation movements since the previous valuations by reference to published price and building cost indices.

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USE OF RESOURCES		
RISK	RISK DETAIL	AUDIT RESPONSE
<p style="text-align: center;">FINANCIAL RESILIENCE</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 15</p>	<p>The update to the Medium Term Financial Strategy to 2017/18 has forecast inflationary pressures of 2% and further reductions in Government core grant funding, with increases in local taxation income failing to keep pace with funding reductions.</p> <p>The Council's PIER plan includes an ambitious £1 million savings in 2015/16, £1.7 million in 2016/17 and £1.8 million in 2017/18. The 2015/16 budget proposes utilisation of earmarked reserves of £3.9 million, of which £2.5 million is planned use for revenue support, £0.5 million capital support, and £0.4 million required to balance the budget. Additional planned utilisation of reserves in 2016/17 and 2017/18 still leaves budget gaps of £0.5 million.</p> <p>Identifying the required level of savings will be a challenge and is likely to require difficult decisions around service provision and alternative delivery models.</p> <p>However, over recent years the Council has built up healthy levels of revenue reserves and balances in recognition of the anticipated reductions in Government funding, which are forecast to be £0.5 million General Fund and £17.7 million earmarked reserves at 31 March 2015.</p>	<p>We will review the assumptions used in the Council's Medium Term Financial Strategy and assess the reasonableness of the cost pressures and the amount of Government grant reductions applied.</p> <p>We will monitor the delivery of the budgeted savings in 2014/15 and the plans to reduce services costs and increase income in 2015/16.</p> <p>We will also review the Council's strategies to close the budget gap in future years.</p>

AUDIT TIMETABLE

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

FINANCIAL STATEMENTS	
Interim visit	April 2015
Final audit visit	July - Aug 2015 Clearance mid August
Independent auditor's report covering: <ul style="list-style-type: none"> • opinion on the financial statements • Value for money conclusion • Certificate 	By 30 September 2015
Assurance statement on the Whole of Government Accounts return	By 7 October 2015
USE OF RESOURCES	
Review of economy, efficiency and effectiveness	May - July 2015
Value for money conclusion	By 30 September 2015
REPORTING	
Report on any significant deficiencies in control (if required)	May 2015
Final report to those charged with governance	17 September 2015 Audit Ctte meeting
Annual Audit Letter	October 2015

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

The 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 council 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



Agenda Item No:

Report to: Audit Committee

Date of Meeting: 9 March 2015

Report Title: Planning Letter 2015/16

Report By: Tom Davies
Chief Auditor

Purpose of Report

To inform members of BDO's Planning Letter 2015/16 showing the proposed fees and programme of work for the 2015/16 financial year.

Recommendation(s)

1. To accept the Planning Letter 2015/16

Reasons for Recommendations

Under the code, BDO are required to report to the Audit Committee the proposed fees and programme of work for the 2015/16 financial year.

Introduction

1. The Planning Letter summarises the proposed fees and audit arrangements.
2. A senior manager from BDO will attend the Audit Committee meeting to explain the contents of the Planning Letter.
3. The Planning Letter is attached at Appendix A of this report.

Wards Affected

None

Area(s) 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	No
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No

Background Information

Appendix A - Planning Letter 2015/16

Officer to Contact

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HASTINGS BOROUGH COUNCIL

Planning Letter 2015/16
Page 21 January 2015

PROPOSED FEES

Scope of the audit

We are required to report to you our proposed fees and programme of work for the 2015/16 financial year.

The proposed fee is based on the consultation undertaken by the Audit Commission in October 2014. Although the Commission will close on 31 March 2015, the Department for Communities and Local Government (CLG) has asked the Commission to set fees for principal bodies before it closes.

The existing Commission's Code of Audit Practice will be replaced by a new Code of Audit Practice to be issued by the National Audit Office, currently being consulted on. In setting fees, the Commission has assumed that there is little change to the scope of the work required to be undertaken by auditors.

The new Code audit fee is expected to cover:

- Audit of the financial statements
- Value for money conclusion
- Whole of Government Accounts return.

There is a separate proposed fee for the certification of the Housing Benefit subsidy return on behalf of the Department for Work and Pensions.

Indicative fees

The indicative fee does not include any time required to investigate questions or objections from members of the public. Should any arise, time spent dealing with questions and objections will be billed separately. Where possible we will provide an estimate of the likely time required to respond to the matters before starting the work.

From 1 April 2015, the Public Sector Audit Appointments Limited (PSAA) will oversee the Commission's contracts through to the end of 2017. It will also be responsible for setting fees in the future.

If we need to propose any amendments to the audit fee during the course of the audit or where our assessment of risk and complexity are significantly different from those reflected in the proposed fee, we will first discuss this with the Head of Finance and seek approval from the Audit Commission for a proposed variation of fee. If necessary, we will also prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

Fees

AUDIT AREA	PROPOSED FEE 2015/16 (£)	PROPOSED FEE 2014/15 (£)	ACTUAL FEE 2013/14 (£)
Code audit fee	46,418	61,890	60,990
Certification fee	8,844	11,792	11,792
Total audit fees	55,262	73,682	72,782

The Commission has consulted on rebasing the Code audit fee from 2014/15 for the work previously undertaken as part of the certification work and reviewed the additional work that we are required to undertake following the withdrawal of the audit requirement to certify NDR income. From 2014/15, the Code audit fee has been increased for all district councils by £900.

The Commission completed a further audit procurement exercise in April 2014 which has enabled the Commission to further reduce fees for the two years from 2015/16, and CLG may wish to extend these contracts to lock in the reduced fees for a further three years. This has allowed the Commission to reduce fees by an additional 25%.

AUDIT ARRANGEMENTS

Planned outputs

We plan to issue the following reports and opinions over the course of the 2015/16 audit:

REPORT	DATE
Detailed audit plan	March 2016
Report on any significant deficiencies in internal controls, if required, based on the results of our interim audit visit	May 2016
Final report to those charged with governance	September 2016
Independent auditor's report including: Opinion on the financial statements Value for money conclusion	September 2016
Whole of Government Accounts assurance statement and report to the NAO	October 2016
Summary of findings from the audit in the annual audit letter	October 2016
Grant claims and returns certification report	December 2016

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Audit team

The key members of the audit team will be:

Engagement Lead - Leigh Lloyd-Thomas

email: leigh.lloyd-thomas@bdo.co.uk

Tel: 020 7893 2616

Leigh will be responsible for the overall delivery of the audit including the quality of outputs and liaison with senior management.

Engagement Manager - Jody Etherington

email: jody.etherington@bdo.co.uk

Tel: 020 7893 2763

Jody will manage and co-ordinate each aspect of the audit and will be the key contact with the Finance team.

Client satisfaction

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact Leigh in the first instance. Alternatively, you may wish to contact our Managing Partner, Simon Michaels. Any complaint will be investigated carefully and promptly. If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales ("ICAEW").

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/about-us/contact-us/complaints>

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 6



Agenda Item No: -

Report to: Audit Committee

Date of Meeting: 9 March 2015

Report Title: **Proposed Internal Audit Plan 2015/16**

Report By: Tom Davies
Chief Auditor

Purpose of Report

To determine the internal audit plan for 2015/16.

Recommendation(s)

1. That the Audit Committee approves the Internal Audit Plan 2015/16

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 2015/16 has been produced after communication with Heads of Service, 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 carrying out audits of Software Licences and the Social Lettings Agency.
2. The approach to the audit of the fundamental financial systems changed nine years ago by 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 and computer auditing. We look for opportunities for value for money (vfm) auditing as they present themselves.
6. The specific terms of reference for each audit will be agreed with the relevant Directors and Managers 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.

	Fundamental and Financial Audits	Risk Reviews, Follow-up and Other
April	NFI Creditors	Audit Committee Terms of Reference update
May	NFI Payroll	Postal Elections
June	Council Tax	Housing Benefit – Grant Subsidy Work
July		
August		
September	Treasury Management	
October		
November	Creditors	
December		Software Licences
January	International Auditing Standards Compliance work covering all fundamental financial controls	Housing - Social Lettings Agency
February		Password Controls
March		Annual Reporting – Annual Governance Statement, Audit Committee Report to Council and Annual Audit Plan

Assignment	Reason	Outline Scope
NFI Creditors	Necessary for External Audit	Investigation of the NFI matches generated by the Audit Commission. Progress will be monitored and reported on by External Audit
NFI Payroll	Necessary for External Audit	Investigation of the NFI matches generated by the Audit Commission. Progress will be monitored and reported on by External Audit
Audit Committee Terms of Reference Update	Last approved October 2005	Review and update if appropriate
Postal Elections	Experienced assistance to the general election - Deputy Returning Officer (Postal Votes)	No output to the Audit Committee
Council Tax	Cyclical regulatory: Expected by External Audit	Comprehensive as per programme carried out in previous years
Housing Benefit – Grant Subsidy Work	Cyclical Regulatory: directly reducing the external audit fee for grant work	Comprehensive audit of the HB Grant Subsidy to be carried out in accordance with the DWP audit instructions
European Grant Work	Fee-earning	Sign-off of the accounts
Treasury Management	Cyclical regulatory: Expected by External Audit (note also, new Change of bank)	Comprehensive as per programme carried out in previous years
Creditors	Cyclical regulatory Expected by External Audit	Comprehensive as per programme carried out in previous years
Ongoing follow-up of CCC/TIC Stock Control	Audit request - embedding control	Continuation of ongoing work

Software Licences	Audit request - raised by the Sussex IT Audit sub-group	A value for money element by ensuring that licenced software purchased is used and to also ascertain controls for removing unlicensed programs
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.
Housing - Social Lettings Agency	Management request New scheme with significant value	To review strict adherence to controls over repairs and maintenance for properties owned by us.
Password Controls	Audit request - IT audit coverage	To examine controls for getting in to computers and the network and also to look at users access profiles for the core systems, Agresso, Northgate & Trent as well as any other system requested by management

Wards Affected

None

Area(s) 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

Background Information

The following internal documents:

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

Officer to Contact

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