

Audit Committee Agenda

Monday, 23 April 2018 at 6.00 pm

Council Chamber, Muriel Matters House, Breeds Place, Hastings, TN34 3UY.
Please enter the building via the Tourist Information Centre entrance.

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

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1.	Apologies for absence	
2.	Declarations of interest	
3.	Minutes of the meeting held on 6 February 2018	1 - 6
4.	External Audit Plan - Audit for the year ended 31 March 2018 <i>(Peter Grace, Assistant Director, Financial Services and Revenues)</i>	7 - 28
5.	Proposed Internal Audit Plan 2018/19 <i>(Tom Davies, Chief Auditor)</i>	29 - 34
6.	Notification of any additional urgent items (if any)	

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Agenda Item 3 Document Pack

AUDIT COMMITTEE

6 FEBRUARY 2018

Present: Councillors Rankin (Chair), Sinden (Vice-Chair), Charman, Chowney and Davies

9. APOLOGIES FOR ABSENCE

None.

10. DECLARATIONS OF INTEREST

None.

11. MINUTES OF THE MEETING HELD ON 21 SEPTEMBER 2017

RESOLVED – (unanimously) that the minutes of the meeting held on 21 September 2017 be approved and signed by the Chair as a true record.

12. HOUSING BENEFITS GRANT SUBSIDY FOR THE YEAR ENDED 31 MARCH 2017

The Assistant Director, Financial Services and Revenues, presented the BDO report which summarises the matters arising from the certification of the Housing Benefit Subsidy Claim for the financial year ended 31 March 2017. The report also included the amount of fees incurred.

He informed the committee that external audit did a lot of work reviewing the Housing Benefit subsidies claim and internal testing work undertaken. It was explained that the variation in fees in their report depends on the sampling. Some claims are straight forward, some go back 10 years and take a lot of time to justify, hence we see a variation on fees and charges against that projected.

Last year was satisfactory. We have again appointed Branch & Lee, Housing subsidy maximisation experts, to review this year's benefits claim and anticipate another smooth process for the 2017/18 audit.

Councillor Sinden queried why the £24,000 swing to Hastings BC was so large. It was explained that this is relatively small in the context of a £50m claim. There will always be errors in the claims given, some are local authority error and others are claimant error, for example, on self-employed earnings there can be different interpretations. He was assured though that overall the error rate is very low.

Councillor Davies queried what happens to the increase in subsidy of £24,000 and was informed that it is in our bank account – offsetting the costs incurred.

Councillor Davies queried whether benefit overpayments and hence funding was impacted as a consequence of bedroom tax. He was informed it was and arises when

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someone exceeds the number of bedrooms to which they are entitled or are not 'disabled exempt' – in which case an overpayment can arise.

Councillor Rankin asked whether Branch & Lee provide value for money.

The Assistant Director Financial Services and Revenues said that they provide good value for money and cost between £22,000-£25,000 a year. Their costs have been offset by the subsidy received. If we stay below error rate, we can recover more subsidy. He added it is important to make as few errors as is possible and we have never exceeded the set error rate where we could lose in excess of £100,000 if it were to be exceeded.

Branch & Lee are good value and also produce an information sheet detailing errors occurring and steps that can be taken to improve accuracy. This provides a valuable learning and training document for staff.

Councillor Sinden proposed a motion to approve the recommendation as set out in the resolution below. This was seconded by Councillor Chowney.

RESOLVED (unanimously) that

- 1. To accept the External Auditor's Report on the Audit of the Housing Benefit Subsidy Claim for the year ended 31 March 2017.**

The reason for the decision was: BDO undertake the grant claim certification as an agent of Public Sector Audit Appointments (PSAA) Ltd, in accordance with the Certification Instruction (CI) issued by them after consultation with the Department for Work and Pensions (DWP).

The Audit Committee role includes receipt and consideration of all reports produced by the External Auditors which are directed to Hastings Borough Council.

13. TREASURY MANAGEMENT, ANNUAL INVESTMENT STRATEGY AND CAPITAL STRATEGY 2018-19

The Assistant Director, Financial Services and Revenues submitted his report to the Committee to consider the draft Treasury Management, Annual Investment Strategy and Capital Strategy and make recommendations to Cabinet and Full Council as appropriate, to ensure that there is an effective framework for the management of the Council's investments, cash flows and borrowing activities. The Council has some £41.1 million of debt as at 23 January 2018, and investments which can fluctuate between some £15 million and £30 million in the year.

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

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

He referred to the changes in this year's strategy and said that he had received new investment guidelines from the Government on Friday and MRP Guidance position. It leaves no time to produce a Capital Strategy for 2018/19, but steps can be taken in 2018/19 to produce one in time for 2019/20 - as required by the Code of Practice.

Committee members asked many detailed questions covering transparency, whether there is flexibility in the capital strategy, PWLB, MRP guidance commercial property purchase, Housing Company, short term investments, borrowing to cover cash flow and other items.

The Assistant Director, Financial Services & Revenues provided comprehensive replies to all of the queries.

Councillor Davies proposed a motion to approve the application subject to the amendment of Condition 3 to add the words 'Capital Strategy'. This was seconded by Councillor Chowney.

RESOLVED (unanimously)

- 1. The Audit Committee recommend that the Council adopts the new CIPFA Treasury Management Code of Practice (2017).**
- 2. The Council formally adopts, as part of the Council's Constitution and financial rules the four clauses recommended by the Code of Practice as detailed in Appendix 8.**
- 3. The Audit Committee recommend that the Council approve the Treasury Management Strategy, Minimum Revenue Provision (MRP) Policy, Annual Investment Strategy, and Capital Strategy.**
- 4. That the strategies continue to be reviewed in 2018/19 in the light of the requirements of the new Codes of Practice and that the Financial rules and Financial Operating Procedures of the Council are reviewed and amendments proposed as necessary.**
- 5. That the authorised limit for external debt is increased by £10m to allow for short term borrowing for cash flow purposes at year end in particular.**

The reason for the decision was: The Council seeks to minimise the costs of borrowing and maximise investment income whilst ensuring the security of its investments. The Council is seeking to increase opportunities for income generation, particularly where there are benefits to the residents of Hastings in doing so, and this will continue to involve the Council in taking on additional borrowing. The sums involved are large and the assumptions made play an important part in determining the annual budget. A new CIPFA Code of Practice (2017 Edition) has been released to take account of the more commercialised approach being adopted by councils and

AUDIT COMMITTEE

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the enhanced levels of transparency required. The Code represents best practice and helps ensure compliance with statutory requirements.

The Council has the ability to diversify its investments and must consider carefully the level of risk against reward against a background still of historically low interest rates. Investments can help to close the gap in the budget in the years ahead and thus help to preserve services.

14. UPDATE ON FINANCIAL ASPECTS OF THE PRIVATE RENTED SECTOR SELECTIVE LICENSING SCHEME

The Assistant Director, Financial Services & Revenues presented a report to update the Audit Committee on the financial aspects of the above scheme following the internal audit report on Selective Licensing undertaken by Price Waterhouse Coopers LLP to the 21st September 2017 Committee.

The Assistant Director, Financial Services & Revenues updated the committee on the progress made in implementation of the recommendations made in the Price Waterhouse Coopers audit report. He concluded that there was clear evidence of improvement and that the degree of implementation of the recommendations was acceptable.

Councillor Chowney proposed a motion to approve the application as set out in the resolution below. This was seconded by Councillor Sinden.

RESOLVED (unanimously)

- 1. To ensure that future schemes are subject to a stringent sensitivity analysis which is completed across services prior to the commencement of the scheme.**
- 2. To ensure that information supplied for regular monitoring is robust in order to allow informed decisions to be made.**
- 3. To ensure that all the data produced by the core systems is sufficiently reliable to allow for the accurate assessment of Income levels.**

The reason for the decision was: To ensure income is correctly reported for statutory reporting purposes and to enable robust and frequent monitoring. Up to date and accurate information will allow informed decision to be made for adaptations to the business plan and ensure suitable financial controls are in place.

15. CHIEF AUDITOR'S SUMMARY AUDIT AND RISK REPORT

The Chief Auditor presented a report which informed the committee of the key findings from the Housing Benefit and Council Tax Reduction audits.

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The purpose is to ensure the council has the right processes and procedures for monitoring each agreement and ensuring complete accurate and timely receipt of all income due.

The review had found that the controls in place were good and worked effectively and no significant audit concerns were raised.

There followed some detailed discussion on Housing Benefit and on the Council Tax Reduction Scheme that enabled a greater understanding of these functions.

Councillor Chowney proposed a motion to approve the recommendation as set out in the resolution below. This was seconded by Councillor Davies.

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

The reason for the decision was: To monitor levels of control within the organisation.

16. **NOTIFICATION OF ANY ADDITIONAL URGENT ITEMS (IF ANY)**

None.

(The Chair declared the meeting closed at. 7.46 pm)

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Agenda Item 4



Report to: Audit Committee

Date of Meeting: 23 April 2018

Report Title: External Audit Plan – Audit for the year ending 31 March 2018

Report By: Peter Grace
Assistant Director - Financial Services & Revenues

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. It also shows the proposed audit fees.

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. The plan shows the proposed audit fees.
3. A senior manager from BDO will attend the Audit Committee meeting to explain the contents of the plan.
4. 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 Audit Plan to the Audit Committee (Audit for the year ending 31 March 2018)

Officer to Contact

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HASTINGS BOROUGH COUNCIL

AUDIT PLAN TO THE AUDIT COMMITTEE
Audit for the year ending 31 March 2018

27 February 2018

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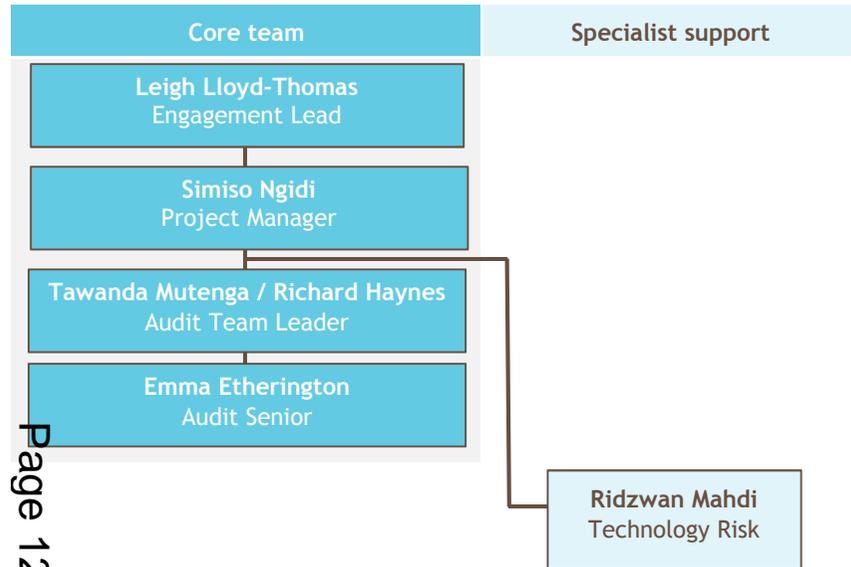
INTRODUCTION

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 'Council') for the year ending 31 March 2018. 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. In preparing this report, we do not accept or assume responsibility for any other purpose, or to any other person, 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
Leigh Lloyd-Thomas Engagement Lead	Tel: 020 7893 2616 leigh.lloyd-thomas@bdo.co.uk	Oversee the audit and sign the audit report
Simiso Ngidi Project Manager	Tel: 01473 320861 simiso.ngidi@bdo.co.uk	Management of the audit
Tawanda Mutenga Audit Team Leader	Tel: 01473 320711 tawanda.mutenga@bdo.co.uk	Day to day supervision of the on-site audit
Emma Etherington Audit Senior	Tel: 01473 320802 emma.etherington@bdo.co.uk	Day to day supervision of the on-site audit
Ridzwan Mahdi Technology Risk Assistant	Tel: 020 7893 3126 ridzwan.x.mahdi@bdo.co.uk	Manage IT review for audit purposes

Leigh is the engagement lead and has the primary responsibility to ensure that the appropriate audit opinion is given on the financial statements and use of resources.

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

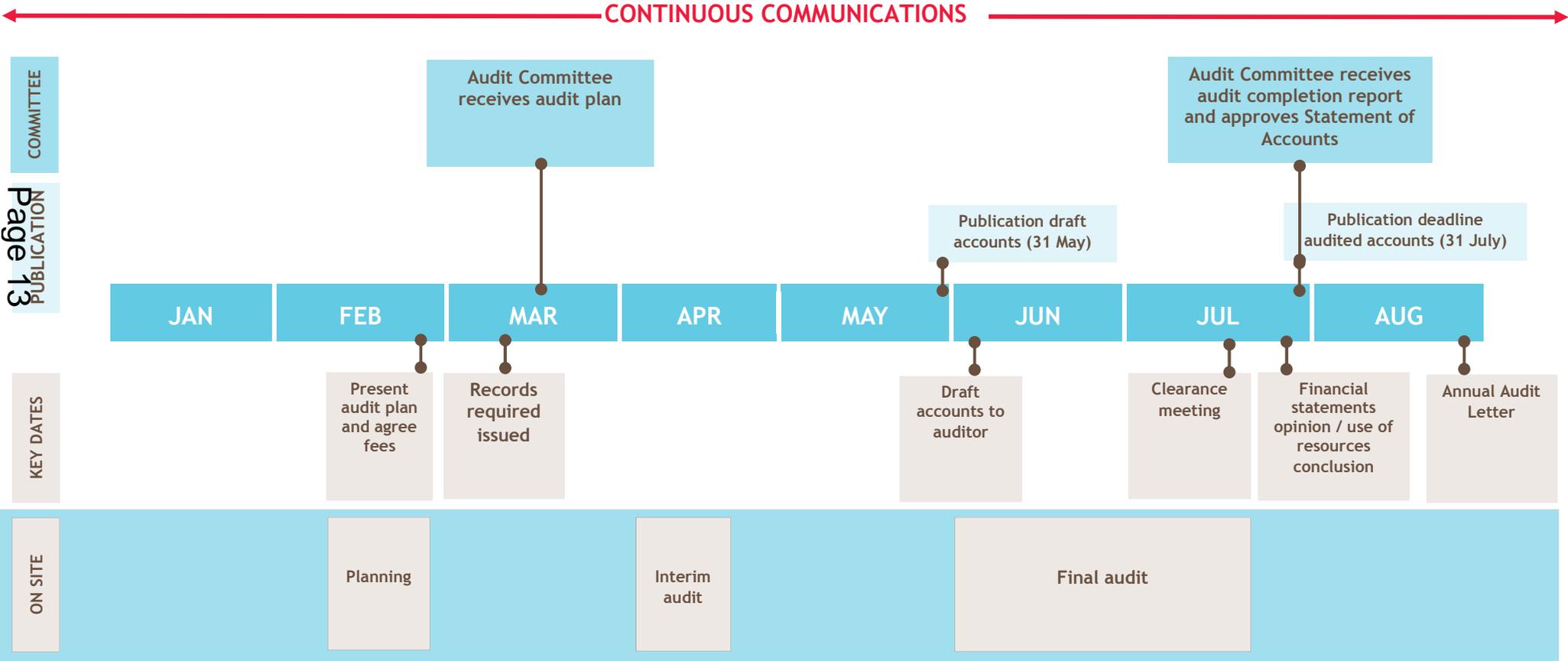
- the financial statements are free from material misstatement, whether due to fraud or error
- the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

He is responsible for the overall quality of the engagement.

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 Page 14	<p>The financial statements give a true and fair view of the financial position of the council and its expenditure and income for the period in question.</p>	<p>2 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 directions.</p>	<p>3 Other information published together with the audited financial statements is consistent with the financial statements (including the governance statement).</p>	<p>4 The return required to facilitate the preparation of Whole of Government Accounts (WGA) consolidated accounts is consistent with the audited financial statements.</p>	<p>5 The council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p>

ADDITIONAL POWERS AND DUTIES

<p>6 Where appropriate: To consider the issue of a report in the public interest. To make a written recommendation to the authority.</p>	<p>7 To allow electors to raise questions about the accounts and consider objections. Where appropriate, to apply to the court for a declaration that an item of account is contrary to law. Where appropriate, to consider whether to issue an advisory notice or make an application for judicial review.</p>
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MATERIALITY

COUNCIL MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Hastings Borough Council	£1,780,000	£35,000

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 2% of the materiality level.

OVERALL AUDIT STRATEGY

We will perform a risk based audit on the Council'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 Council'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 Council'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 both sector and Council-specific level, and draw on relevant cost and performance information as appropriate.

We then carry out our audit procedures in response to audit 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
- 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 information on potential significant risks such as:

- Organisational change and transformation
- Significant funding gaps in financial planning
- Legislative or policy changes
- Repeated financial difficulties or persistently poor performance
- Information from other inspectorates and review agencies suggesting governance issues or poor service performance.

We consider the relevance of these risks to the Council in forming our risk assessment and audit strategy.

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 and whether to place any reliance on internal audit work as evidence of the soundness of the Council's control environment.

OVERALL AUDIT STRATEGY

Continued

Management assessment of fraud

We have discussed with management its assessment of the risk that the financial statements may be materially misstated due to fraud and the processes for identifying and responding to the risks of fraud.

Management believe that the risk of material misstatement due to fraud in the financial statements is low. We are informed by management that there have not been any cases of significant or material fraud to their knowledge, and that controls are in operation to prevent or detect material fraud.

The Audit Committee has oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks. This is discharged through reviews undertaken by internal audit.

To corroborate the responses to our inquiries of management, please let us know if there are any significant or material actual, suspected or alleged instances of fraud of which you are aware.

KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk

AUDIT RISK AREAS - FINANCIAL STATEMENTS

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 auditing standards, there is a presumed significant risk of management override of the system of internal controls.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. • Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. • Obtain an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual. 	Not applicable.
Revenue recognition	<p>Under auditing standards there is a presumption that revenue recognition presents a fraud risk. For local authorities, the risks can be identified as affecting the existence of income.</p> <p>In particular, we consider there to be a significant risk in respect of existence (recognition) of revenue and capital grants that are subject to performance and / or conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES).</p> <p>We also consider there to be a significant risk in relation to the existence of fees and charges recorded in the CIES.</p>	<p>We will test a sample of grants subject to performance and / or conditions to confirm that conditions of the grant have been met before the income is recognised in the CIES.</p> <p>We will test a sample of fees and charges to ensure income has been recorded in the correct period and that all income that has been recorded should have been recorded.</p>	Government grant funding will be agreed to information published by the sponsoring Department.

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>Pension liability assumptions</p> <p>Page 19</p>	<p>The net pension liability comprises the Council’s share of the market value of assets held in the East Sussex Pension Fund and the estimated future liability to pay pensions. An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience.</p> <p>The estimate is based on a roll-forward of data from the 2016 triennial valuation, updated where necessary, 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>This is a significant risk due to the higher estimation uncertainty arising from the range of assumptions available to value the pension liability.</p>	<p>We will contact 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 compare the assumptions used by the scheme actuary with assumptions used by other local government actuaries (provided by PwC consulting actuaries) to assess the reasonableness of the assumptions and impact on the calculation of the present value of estimated future pension payments.</p> <p>We will compare the disclosure in the financial statements to the information provided by the actuary.</p>	<p>We will use a PwC consulting actuary report provided to auditors for the review of the methodology of the actuary and reasonableness of the assumptions used.</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 land, buildings and investment properties</p> <p>Page 20</p>	<p>Local authorities are required to ensure that the carrying value of land, buildings and investment properties are not materially different to existing use value for operational assets, or fair value for surplus assets and investment properties at the balance sheet date.</p> <p>The Council 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.</p> <p>There is a risk over the valuation of land, buildings and investment properties where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at year-end.</p> <p>This is a significant risk due to the higher estimation uncertainty arising from the range of assumptions available to value land and property assets.</p>	<p>We will review the instructions and the detailed information provided to the valuer and perform procedures to confirm the accuracy and completeness of the information.</p> <p>We will review the valuer's skills and expertise in order to determine if we can rely on the management expert.</p> <p>We will confirm that the basis of valuation for assets valued in year is appropriate based on their usage.</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 valuation movements 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
Valuation of heritage assets	<p>Where heritage assets are measured at valuation, the carrying amount shall be reviewed with sufficient frequency to ensure the valuations remain current.</p> <p>Heritage Assets are valued by an external valuer by reference to insurance valuations and are also revalued using a rolling programme.</p> <p>There is a risk over the valuation of heritage assets where valuations are not undertaken with sufficient frequency.</p>	<p>We will review the instructions provided to the valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert.</p> <p>We will confirm that the basis of valuation for the various classes of heritage assets valued in year is appropriate.</p>	Not applicable.
Allowances for non-collection of receivables	<p>The Council makes allowance for the non-collection of receivables relating to housing benefit overpayments, council tax, non-domestic rates and trade receivables. These allowances are management estimates based on historic experience, 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>	We will review the provision model for significant income streams and debtor balances to assess whether it appropriately reflects historical collection rates by age of debt or arrears.	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
<p>Consideration of related party transactions</p>	<p>We 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.</p> <p>There is a risk that related party transactions disclosures are omitted from the financial statements, or do not accurately reflect the underlying related party transaction.</p>	<p>We will review relevant information concerning any such identified transactions.</p> <p>We will discuss with management and review member's and Senior Management declarations to ensure there are no potential related party transactions which have not been disclosed. This is something we will require you to include in your management representation letter to us.</p>	<p>We will carry out Companies House searches to identify any undisclosed interests.</p>
<p>Preparation of group accounts</p>	<p>The Council has created a wholly-owned housing company to be funded by loans from the Council in order to acquire housing for development and rental.</p> <p>Where the investment becomes material there will be a requirement to prepared group accounts to consolidate the results, assets and liabilities of the housing company into group financial statements, and to eliminate intra-group balances and transactions.</p>	<p>We will review the financial position of the housing company to determine whether management should prepare group financial statements to include both the financial statements of the Council and the group.</p>	<p>Not applicable.</p>

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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 style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 29 Sustainable finances</p>	<p>The Council set a balanced budget for 2017/18 using £0.6 million support from reserves, but with unfunded shortfalls in the medium term.</p> <p>The forecast outturn and revised budget for 2017/18 shows that Operational Services additional spend of £0.6 million and debt financing costs for additional borrowing has been offset through reduced planned contributions to the Repairs and Renewals reserve and additional support from earmarked reserves. The outturn net support from earmarked reserves is expected to be £0.4 million for the year.</p> <p>The 2018/19 and 2019/20 budgets reflect further reductions in Government support and requires £1 million from reserves in each year to deliver a balanced budget. In the medium term, there are budget shortfalls of £1.9 million in 2020/21 and £2.4 million in 2021/22 that will need to be addressed.</p> <p>PIER savings of £0.2 million have been delivered in 2017/18 against the original budget of £0.7 million, and the savings required in the three years from 2018/19 are £0.5 million, £0.9 million and £1.2 million.</p> <p>The Council has planned for significant capital investment in commercial ventures, setting aside £20 million in 2018/19 to be funded from borrowing, with outline headroom to spend up to £50 million on commercial property, housing and energy schemes. This builds on recent commercial property acquisitions to support income growth in the budget.</p> <p>While the Council holds significant reserves to support the budget shortfalls in the coming years, it is clear that there is a significant challenge to close the funding gap in the medium term.</p>	<p>We will review the assumptions used in the MTFS and assess the reasonableness of the cost pressures and future income levels which have been forecast.</p> <p>We will monitor the delivery of the budgeted savings in 2018/19 and the plans to reduce services costs and increase income from 2019/20.</p>	<p>Not applicable.</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 2018.

We have not identified any potential threats to our independence as auditors. We do not provide any non-audit services.

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.

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 below sets out the length of involvement of key members of the audit team.

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

ENGAGEMENT TEAM ROTATION

SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED
Leigh Lloyd-Thomas - Engagement lead	3
Simiso Ngidi - Project manager	1

FEES

FEES SUMMARY

Our proposed fees, excluding VAT, for the year ending 31 March 2018 are:

	2017/18 Proposed fee £	2016/17 Actual fee £
Code audit fee	46,418	46,418
Certification fee (Housing benefits subsidy)	8,844	12,531
TOTAL FEES	55,262	58,949

Invoices in respect of the audit fee will be raised in four equal instalments on a quarterly basis throughout the 2017/18 financial year, following which our firm's standard terms of business state that full payment is due within 14 days of receipt of invoice.

Certification of the housing benefits subsidy claim will be billed on 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 27 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 are 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.

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: 23 April 2018

Report Title: Proposed Internal Audit Plan 2018/19

Report By: Tom Davies
Chief Auditor

Purpose of Report

To consider the proposed internal audit plan for 2018/19.

Recommendation(s)

1. That the Audit Committee approves the Internal Audit Plan 2018/19

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 2018/19 has been produced after communication with Assistant Directors, External Audit and reference to the Council's agreed priorities. It includes both traditional areas of work and scope for flexibility in a changing work environment.
2. The approach to the audit of the fundamental financial systems changed twelve 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 computer auditing. Information Communications Technology also 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 2018/2019, Internal Audit , will for example:
 - Be involved in the Postal Elections
 - Audit contract final accounts
 - Progress Controls Assurance Mapping

	Fundamental and Financial Audits	Risk Reviews, Follow-up and Other
April	Completion of NDR	Completion of Cyber Risks
May	Petty Cash	Carry over - Syrian Refugees (Financial processes)
June	Council Tax	Town Hall Transparency
July	Creditors	Corporate Credit Cards
August	Cash & Bank	General Data Protection Regulation
September	Section 106 administration	Vehicles administration
October	Debt Profiling	Emerging Risks (to be advised)
November	Emerging Risks (to be advised)	Procurement Spend
December	International Auditing Standards Compliance work covering all Fundamental financial controls	Value for Money work (to be advised)
January		Emerging Risks (to be advised)
February	Treasury Management	Password Security
March	International Auditing Standards Compliance work covering all fundamental financial controls	Annual Reporting – Annual Governance Statement, Audit Committee Report to Council and Annual Audit Plan

Assignment	Reason	Outline Scope
Completion of NDR	Core audit 2017/18	To complete the NDR audit that was in progress over year end.
Completion of Cyber Risks	Audit request	To complete Cyber Risks audit that was in planning stage over year end
Petty Cash	Management request	To review petty cash arrangements.
Carry over: Syrian Refugees (Financial Processes)	Management request	To complete audit identified in 2017/18 plan.
Council Tax	Cyclical regulatory - Expected by External Audit	Comprehensive programme as per programme carried out in previous years.
Town Hall Transparency	Audit request	To ensure compliance with the local government transparency code.
Creditors	Cyclical regulatory - Expected by External Audit	Comprehensive programme as per programme carried out in previous years.
Corporate Credit Cards	Management request	Review use of corporate credit cards.
Cash & Bank	Cyclical regulatory - Expected by External Audit (From 2016/17)	Comprehensive programme as per programme carried out in previous years.
General Data Protection Regulation GDPR	Management request	Brief audit of arrangements following implementation as of 25 may 2018.

Section 106 administration	Audit request	Review of section 106 process for accuracy.
Vehicles administration	Management request	To review controls over completeness and accuracy of records and purchase.
Debt profiling	Audit request	To examine the debt profile in compliance with a debt recovery strategy.
Procurement Spend	Management request	To audit the processes for the identification and management of off-contract spend and small/local businesses in terms of percentage spend.
Password Security	Audit request	To check logical access controls for each of the council's main IT systems.
IAS 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.

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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