

# Audit Committee Agenda

**Thursday, 12 March 2020 at 6.00 pm**

Council Chamber, Muriel Matters House, Breeds Place, Hastings, TN34 3UY.  
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democraticservices@hastings.gov.uk

		Page No.
1.	Apologies for absence	
2.	Declarations of interest	
3.	Minutes of the last meeting	1 - 6
4.	Grant Thornton Audit External Audit Plan <i>(Peter Grace, Assistant Director, Financial Services and Revenues Chief Finance Officer)</i>	7 - 30
5.	Grant Thornton Audit Sector Update Report <i>(Peter Grace, Assistant Director, Financial Services and Revenues Chief Finance Officer)</i>	31 - 52
6.	Proposed Internal Audit Plan 2020/21 <i>(Tom Davies, Chief Auditor)</i>	53 - 58
7.	Notification of any additional urgent items (if any)	

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22 JANUARY 2020

Present: Councillors Rankin (Chair), Levane (Vice-Chair), Berelson and Charman

**73. APOLOGIES FOR ABSENCE**

Apologies received from Councillor Chowney.

**74. DECLARATIONS OF INTEREST**

None.

**75. MINUTES OF THE LAST MEETING**

**RESOLVED – (Unanimously) that the minutes of the meeting held on the 14 November 2019 be approved.**

**76. THE ANNUAL AUDIT LETTER FOR HASTINGS BOROUGH COUNCIL - YEAR ENDED 31 MARCH 2019**

The Assistant Director Financial Services and Revenues (Chief Finance Officer) presented a report to inform the Audit Committee of the contents of the Annual Audit Letter for the Year ended 31 March 2019 which is a concise summary of the work carried out by External Audit (Grant Thornton).

The Chief Finance Officer introduced Darren Wells of Grant Thornton LLP (engagement lead) to discuss the Annual Audit Letter for the Year ended 31 March 2019.

DW explained that this report was the last piece of the 2018-2019 audit, and summarises it at a higher level to other previous reports.

Councillors stated that there was nothing of any significance regarding financial or reputational risk to the council. They requested that DW explain more about the changes that the Ministry of Housing, Communities and Local Government regarding the drive from simplified accounts.

DW told Councillors about the Redmond Review. The Redmond Review is looking at audit and financial reporting as a whole. Some of the issues the review is considering are whether financial reporting has become too complex and needs simplifying, whether timescales are unrealistic, and whether audit fees have become too low.

Councillors said they were keen to see a drive for more transparency and readability, so understand why simplification is being looked into.

Councillors asked why audit fees are considered to be too low, if there are plans to simplify the accounts.

## AUDIT COMMITTEE

22 JANUARY 2020

The Chief Finance Officer explained that the council, councillors and public alike all want a good audit from qualified people. It's difficult for audit firms to do good quality work in the short amount of time they are given at the fees they currently charge.

Councillors discussed the idea of having a normal audit and a simplified audit which both the public and new councillors find easy to understand. DW addressed the question about audit fees and acknowledged that it brought a wider question regarding the effectiveness of audit. There is a concern about sustainability and whether it is possible to deliver the standards required. This is something that the Redmond Review will address.

**RESOLVED-** (Unanimously)

- 1. To approve the Annual Audit Letter for Hastings Borough Council – Year ended 31 March 2019**

### Reasons for Recommendations

The Annual Audit Letter is for all councillors and the public and will be posted to the council's website. It is of particular interest to those charges with governance.

### **77. AUDIT PROGRESS REPORT AND SECTOR UPDATE**

The Chief Finance Officer presented a report to inform the Audit Committee of External Audit progress in delivering their responsibilities and providing a Sector Update.

The Chief Finance Officer introduced DW to discuss the report.

Councillors asked for DW's take on the wider environment and the key issues.

DW explained that one of the main concerns is the financial environment that local authorities are currently operating in, as this brings uncertainty. There is a struggle to be sustainable.

Councillors asked a question regarding Page 34 of the report which discusses Minimum Revenue Provisions (MRP). The Minimum Revenue Provisions are set aside from normal revenue to pay off debts.

Councillors discussed MRP, and raised concerns as to whether it is a sustainable amount to have put aside with the council's current financial position. The Chief Finance Officer assured that the MRP for the council is based on sound and supportable methodology.

**RESOLVED-** (Unanimously)

- 1. That the report be noted.**

### Reasons for Recommendations

## AUDIT COMMITTEE

22 JANUARY 2020

As a communication channel for Grant Thornton to inform the Committee on progress in delivering their responsibilities as our External Auditor and to provide a summary of emerging national issues and developments that are relevant to us as a local authority.

### **78. TREASURY MANAGEMENT - MID YEAR REPORT 2019/20**

The Chief Finance Officer presented a report to Audit Committee. This report advises of the Treasury Management activities and performance during the current year. It provides the opportunity to review the Treasury Management Strategy and make appropriate recommendations to Council to take account of any issues or concerns that have arisen since approving it in February 2019.

The Chief Finance Officer explained that we are substantially past the mid-year date so a lot of the information in this report is superseded by the information from the upcoming report. He explained that the report was very much in line with the strategy set in 2019 and complies with all prudential indicators. The only unexpected issue occurred post-September, when there was an increase in rates on loans from the Public Works Loan Board (PWLB).

Councillors asked why PWLB rates were increased.

The Chief Finance Officer explained that some local authorities may have borrowed above what is prudent in the government's view. It is a tough approach to cool the market.

Councillors asked where the council could borrow money from if borrowing from the PWLB was no longer feasible.

The Chief Finance Officer assured councillors that the council would still be able to borrow from the PWLB, but there are also other avenues available if necessary such as the council's own limited resources and the private sector (Municipal Bond Agency).

### **RESOLVED-** (Unanimously)

#### **1. Audit Committee agree the Mid-Year report.**

#### Reasons for Recommendations

The Code of Practice on Treasury Management requires, as a minimum, a mid-year review of the Treasury Management Strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved (February 2019). It is a requirement of the Code of Practice that the Mid-year review is considered by Cabinet and full Council.

### **79. TREASURY MANAGEMENT, ANNUAL INVESTMENT STRATEGY AND CAPITAL STRATEGY 2020/21**

## AUDIT COMMITTEE

22 JANUARY 2020

The Chief Finance Officer presented a report to Audit Committee to consider the draft Treasury Management Strategy, Annual Investment Strategy, Minimum Revenue Provision (MRP) Policy and Capital Strategy and make recommendations to Cabinet and full Council as appropriate. This is to ensure that there is an effective framework for the management of the Council's investments, cash flows and borrowing activities prior to the start of the new financial year. This report also provides an update on performance to 31 December 2019.

The Council has some £64.55 million of debt (as at 1 January 2020), and investments which can fluctuate between £15m and £30m in the year. The level of debt is set to increase to some £104m by 2021/22 with a consequently increase in risks.

The Chief Finance Officer explained that the key changes within this report compared to the council's current strategy to date are levels of borrowing and investment, and the use of money markets and the way this affects the council as a whole.

Councillors asked about ethical investments.

The Chief Finance Officer advised that the council are not currently knowingly investing in any areas where any of the council's requirements on ethical investments are not being met. The Chief Finance Officer does not see this to be a particular issue for Hastings Borough Council given the limited investments made and the institutions involved. However an ethical investment policy will be developed.

Councillors stated they would welcome seeing such a document which would summarise the council's investments.

Councillors also discussed various factors which need to be kept an eye on by this committee throughout the year, such as MRP.

**RESOLVED-** (Unanimously)

**The Audit Committee recommend to Cabinet and full Council that:**

- 1. The Council approve the Treasury Management Strategy, Minimum Revenue Provision (MRP) Policy, Annual Investment Strategy, and the Capital Strategy.**
- 2. The strategies listed be updated as necessary during 2020/21 in the light changing and emerging risks and the Council's evolving future expenditure plans.**
- 3. The Financial rules and the Financial Operating Procedures of the Council are reviewed and revised as necessary to meet the requirements of the Code of Practice.**
- 4. The Cabinet and full Council note that there is likely to be the use of Money Market Funds in 2020/21 – as already allowed for in the investment strategy.**

## AUDIT COMMITTEE

22 JANUARY 2020

### Reasons for Recommendations

1. The Council seeks to minimise the costs of borrowing and maximise investment income whilst ensuring the security of its investments. The Council continues to make substantial investments in commercial property, housing and energy generation initiatives, and this will continue to involve the Council in taking on additional borrowing.
2. The sums involved are significant and the assumptions made play an important part in determining the annual budget. The CIPFA Treasury Management Code of Practice (2017 Edition), adopted by the Council last year, was released to take account of the more commercialised approach being adopted by councils and the enhanced levels of transparency required. The Code represents best practice and helps ensure compliance with statutory requirements.
3. The Council has the ability to diversify its investments and must consider carefully the level of risk against reward against a background of historically relatively low interest rates. Investments can help to close the gap in the budget in the years ahead and thus help to preserve services, assist in the regeneration of the town, provide additional housing and enhance the long term sustainability of the town. However over reliance on such income streams would involve taking unnecessary risks with the future of the Council and its ability to deliver statutory services.
4. The Council has the option of using Money Market funds within its Investment Policy already. These are on occasion providing higher rates of return than some straight deposit accounts and as such the use of these funds is likely to occur in the near future.

### **80. NOTIFICATION OF ANY ADDITIONAL URGENT ITEMS (IF ANY)**

None.

(The Chair declared the meeting closed at. 7.25 pm)

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# Agenda Item 4



**Report to:** Audit Committee

**Date of Meeting:** 12 March 2020

**Report Title:** External Audit Plan – Year ending 31 March 2020

**Report By:** Peter Grace, Assistant Director Financial Services & Revenues  
(Chief Finance Officer)

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## Purpose of Report

To inform councillors of Grant Thornton's audit plan for the audit of the Council's accounts and Value for Money arrangements. The attached report from Grant Thornton highlights the risk based approach to the audit and the main risks they have identified. It also shows the proposed audit fees.

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## Recommendation(s)

1. To accept the External Auditor's Audit Plan. t

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## 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.

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## 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. The plan shows the proposed audit fees.
2. The detailed report can be found at appendix A.
3. We are expecting a senior manager from Grant Thornton to present the report.

### Timetable of Next Steps

4. Please include a list of key actions and the scheduled dates for these:

Action	Key milestone	Due date (provisional)	Responsible
Not applicable – this is an information report for the public	-	-	-

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**Wards Affected**

None.

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**Implications**

Relevant project tools applied? ~~Yes/No~~/N/A

Have you checked this report for plain English and readability? Yes/~~No~~

Climate change implications considered? ~~Yes~~/No

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

Equalities and Community Cohesiveness  
Crime and Fear of Crime (Section 17)  
Risk Management ✓  
Environmental Issues  
Economic/Financial Implications ✓  
Human Rights Act  
Organisational Consequences  
Local People's Views  
Anti-Poverty

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**Additional Information**

Appendix A – External Audit Plan - Year ending 31 March 2020

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**Officer to Contact**

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# External Audit Plan

*Year ending 31 March 2020*

Hastings Borough Council

March 2020

Page 11



# Contents



Your key Grant Thornton  
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Page 12

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## Section

Section	Page
1. Introduction & headlines	3
2. Key matters impacting our audit	4
3. Group audit scope and risk assessment	5
4. Significant risks identified	6-8
5. Other risks identified	9
6. Other matters	10
7. Materiality	11
8. Value for Money arrangements	12-13
9. Audit logistics & team	14
10. Audit fees	15-16
11. Independence & non-audit services	17

## Appendix

### A. Audit quality – national context

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# 1. Introduction & headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Hastings Borough Council ('the Authority') for those charged with governance.

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Hastings Borough Council. We draw your attention to both of these documents on the [PSAA website](#).

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Authority and group's financial statements that have been prepared by management with the oversight of those charged with governance the Audit committee; and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based.

<b>Group Accounts</b>	The Authority is required to prepare group financial statements that consolidate the financial information of Hastings Housing Company Ltd.
<b>Significant risks</b>	<p>Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:</p> <ul style="list-style-type: none"> <li>• The revenue cycle includes fraudulent transactions;</li> <li>• Management Override of Controls;</li> <li>• Valuation of Pension Fund Net Liability;</li> <li>• Valuation of Property, Plant, and Equipment.</li> </ul> <p>We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.</p>
<b>Materiality</b>	We have determined planning materiality to be £1,447k (PY £1,436k) for the group and £1,440k (PY £1,436k) for the Authority, which equates to 1.99% of your prior year audited gross operating expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £72k (PY £72k).
<b>Value for Money arrangements</b>	<p>Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:</p> <ul style="list-style-type: none"> <li>• Medium term financial sustainability</li> </ul>
<b>Audit logistics</b>	<p>Our interim visit took place in February and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.</p> <p>Our fee for the audit will be £43,242 (PY: £43,742) for the Authority, subject to the Authority meeting our requirements set out on page 14. See a further analysis of proposed increases to the fee on page 16.</p>
<b>Independence</b>	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

## 2. Key matters impacting our audit

### Factors

#### The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For this Authority, at month 9 of the 2019/20 financial year, the revised budget shows a forecast service expenditure deficit of £262k, though after use of funding from the transition and other reserves the result is a £272k positive variance against the budget. The Council set a balanced budget for 2020/21, but this requires £1.152m use of reserves to close the funding gap. The Medium Term Financial Strategy sets out expectations of funding shortfalls of between circa £500-800k for each of the 3 years in the Strategy through to 2023/24. This demonstrates the ongoing challenge for the authority.

With the recent changes to the overall majority in central government, this is likely to lead to ongoing uncertainty in local government funding, and therefore there is currently no reasonable estimate that can be made for the impact of the ongoing Fair Funding Review and potential changes to Business Rate retention leading to ongoing medium term budgetary uncertainty going forwards.

#### The UK's exit from the European Union

In January 2020 the UK government and the EU ratified the Withdrawal Agreement and the UK's membership of the EU formally ceased on 31 January. The existence of a 'transition period' to 31 December 2020 means that there will be little practical change for the Council until at least 2021. However, the nature of the future relationship between the UK and the EU is still to be determined and considerable uncertainty persists. The Council will need to ensure that it is prepared for all outcomes, including those with any impact on contracts, on service delivery and on its support for local people and businesses.

#### Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.

Our work in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.

#### IFRS 16 - Leases

The new accounting standard IFRS 16 – Leases comes into force for public sector accounts from 1 April 2020. This removes the current distinction between operating and finance leases. In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Authority's 2019/20 financial statements.

### Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the group and will review related disclosures in the financial statements.
- Where any actions have been agreed in respect of matters identified through our previous audit work, we will consider progress against these recommendations.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee to meet the increasing expectations of audit quality, is set out further below, and is subject to PSAA agreement.

We will assess the adequacy of your disclosure about the financial impact of implementing IFRS 16 – Leases from 1 April 2020 and test a sample of lease obligations to determine whether they have been accounted for appropriately under the new requirements.

### 3. Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Hastings Borough Council	Yes		<ul style="list-style-type: none"> <li>See risks identified on pages 6-8.</li> </ul>	Full scope UK statutory audit performed by Grant Thornton UK LLP
Hastings Housing Company Ltd	No	Audit of one or more classes of transactions, account balances or disclosures relating to significant risks of the group financial statements.	<ul style="list-style-type: none"> <li>Valuation of property, plant, and equipment.</li> </ul>	We will carry out: <ul style="list-style-type: none"> <li>- specific scope procedures on property, plant and equipment;</li> <li>- substantive testing on other material balances not relating to significant risks of the group financial statements;</li> <li>- analytical review on remaining income/expenditure/assets and liabilities</li> </ul> All to be performed by Grant Thornton LLP

Page 15

#### Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

## 4. Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Income from fees, charges and other service income	Authority	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>For Hastings Borough Council, we have concluded that the greatest risk of material misstatement relates to fees, charges and other service income where the timing of income recognition could be via subjective criteria determined by management.</p> <p>We have therefore identified the occurrence and accuracy of fees, charges and other service income as a significant risk, which was one of the most significant assessed risks of material misstatement</p> <p>We have rebutted this presumed risk for revenue streams that are derived from Council Tax, Business Rates and Grants on the basis that they are income streams primarily derived from grants or formula based income from central government and tax payers and that opportunities to manipulate the recognition of these income streams is very limited.</p>	<p>For all material income streams where we have not rebutted the presumed risk of revenue recognition we will:</p> <ul style="list-style-type: none"> <li>• evaluate your accounting policy for recognition of income for appropriateness and compliance with LG Code of Practice;</li> <li>• update our understanding of your system for accounting for income and evaluate the design of the associated controls;</li> <li>• review and sample test income to supporting evidence corroborating the occurrence of the service/good delivered and the accuracy of the amount recognised;</li> <li>• evaluate and challenge significant estimates and the judgments made by management in the recognition of income.</li> </ul>
Management over-ride of controls	Group and Authority	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals;</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals;</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>

## 4. Significant risks identified (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Authority	<p>The Authority revalues its land and buildings on a five-yearly rolling basis to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for investment properties and surplus assets) at the financial statements date. This valuation is carried out by the Council's internal valuers, professional valuers and independent property managing consultants contracted by the Council. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (approximately £137 million at the 31 March 2019 balance sheet date) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for investment properties and surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert;</li> <li>• write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met and discuss this basis where there are any departures from the Code;</li> <li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding;</li> <li>• assess how management have challenged the valuations produced internally, by professional valuers and by independent property managing consultants to assure themselves that these represent the materially correct current value;</li> <li>• test revaluations made during the year to see if they had been input correctly into the Authority's asset register;</li> <li>• evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value;</li> </ul>

## 4. Significant risks identified (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Authority	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (approximately £46 million in the Authority's balance sheet at the 31 March 2019) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;</li> <li>• assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;</li> <li>• test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;</li> <li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and</li> <li>• obtain assurances from the auditor of East Sussex Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul>

Page 18

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.

## 5. Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)	Authority	<p>The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments.</p> <p>In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Authority's 2019/20 financial statements. The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Evaluate the processes the Authority has adopted to assess the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements.</li> <li>Assess the completeness of the disclosures made by the Authority in its 2019/20 financial statements with reference to The Code and CIPFA/LASAAC <a href="#">Local Authority Leasing Briefings</a>.</li> </ul>

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.

## 6. Other matters

### Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions
- We consider our other duties under the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
  - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
  - Issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State
  - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
  - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

### Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

### Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the group's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and material uncertainties, and evaluate the disclosures in the financial statements.

# 7. Materiality

## The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1,447k (PY £1,436k) for the group and £1,440k (PY £1,436k) for the Authority, which equates to 2% (group)/1.99% (authority) of your prior year gross operating expenditure for the year.

We consider materiality for other areas of the accounts which may require a differing level of materiality for reporting. Areas considered were cash and cash equivalents, related party transactions and senior officer remuneration. We considered how users may be affected by misstatements in these areas and concluded that we would report any uncorrected errors over £20k, and we will also consider reporting of errors below this if the particular circumstances require it (the error is considered to be indicative of fraud).

We reconsider planning 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.

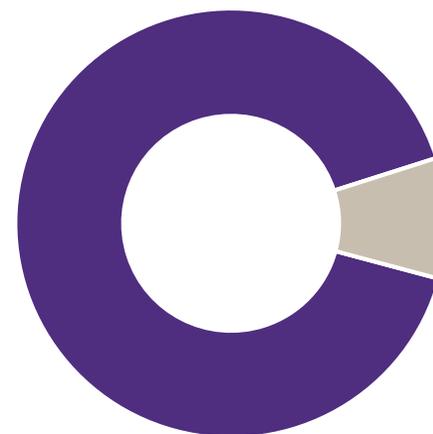
## Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £72k (PY £72k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

## Prior year gross operating expenditure

£71,371k group  
£72,372k Authority



- Prior year gross operating expenditure
- Materiality



£1,447k  
group financial  
statements materiality  
(PY: £1,436k)  
£1,440k  
Authority financial  
statements materiality  
(PY: £1,436k)

£72k  
Misstatements reported  
to the Audit Committee  
(PY: £72k)

## 8. Value for Money arrangements

### Background to our VFM approach

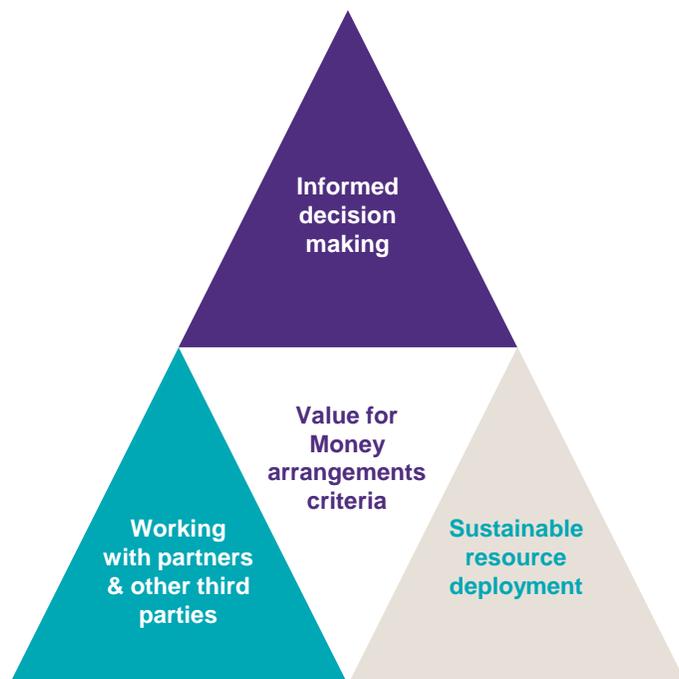
The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

*“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”*

This is supported by three sub-criteria, as set out below:

Page 22



### Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.



#### Medium term financial sustainability

Across the Local Government sector medium to long term financial plans are under strain due to reductions in central government funding along with increases in demand. In the 2017/18 and 2018/19 years the Council had deficit financial results on its provision of services. As at month 9 of the 2019/20 financial year, the revised budget shows a forecast service expenditure deficit of £262k, though after use of funding from the transition and other reserves the result is a £272k positive variance against the budget. The authority is responding to funding challenges in a variety of ways, through identifying efficiencies & new sources of funding, working with partners, and engaging in service redesign.

The Council set a balanced budget for 2020/21, composed of a £1.152m deficit result balanced by use of reserves. £1.8m of PIER savings have been identified the year, though these have been insufficient to close the budget gap and the authority expects to use reserves to balance the budget. The Medium Term Financial Strategy sets out expectations of funding shortfalls of between circa £500-800k for each of the 3 years in the Strategy through to 2023/24. There are savings and income generation plans in place which will mitigate some of the impact, but the expected results will entail use of the Council's current usable reserves which will be difficult to replenish. The authority continues to develop and implement regeneration plans to attract housing and investment into the area, and generate additional revenues.

With the recent changes to the overall majority in central government, this is likely to lead to ongoing uncertainty in local government funding, and therefore there is currently no reasonable estimate that can be made for the impact of the ongoing Fair Funding Review and potential changes to Business Rate retention leading to ongoing medium term budgetary uncertainty going forwards. (continued on next page)

## 8. Value for Money arrangements (continued)



### Medium term financial sustainability (continued)

Local Government reserves levels are under increased scrutiny with the high level of uncertainty over funding levels. At 31 March 2019 the usable reserves stood at £20.8m, a level which is considered by the Council to be sufficient to ensure the ongoing sustainability of the organisation.

The clear steep challenges in this area around uncertainty of ongoing funding levels and restricted means by which to increase revenue levels and maintain/increase useable reserves lead us to conclude that medium term financial sustainability is a significant risk for the authority.

Our work will primarily include:

- Reviewing performance in the current 2019/20 year against budget as a means of assessing the reasonableness of the authority's budgeting methods;
- Reviewing management's methods/processes in building the budget and Medium Term Financial Strategy;
- Understanding and challenging the key assumptions and estimates, particularly those that are highly judgemental, and comparing these to other authorities and our overall sector knowledge;
- Assessing and understanding how the authority sets the level of minimum reserves which should be held to maintain council services/funds through uncertainty, and concluding on whether the management considerations in setting the level are reasonable; and
- Discussion and consideration of the Authority's regeneration/development plans and other areas of future uncertainty.

## 9. Audit logistics & team



### Darren Wells, Key Audit Partner

Darren will be the main point of contact for the Chair and the Chief Executive and Members. Darren will share his knowledge and experience across the sector providing challenge, sharing good practice, providing pragmatic solutions and acting as a sounding board with Senior Board Members and the Audit Committee. Darren will ensure our audit is tailored specifically to you and is delivered efficiently. Darren will review all reports and the team's work focussing his time on the key risk areas to your audit.

### Andy Conlan, Audit Manager

Andy will work with the senior members of the finance team ensuring early delivery of testing and agreement of accounting issues on a timely basis. Andy will attend Audit Committees, undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable to all. Andy will work with Internal Audit to secure efficiencies and avoid duplication.

### Harpaul Lachhar, Audit Incharge

Harpaul will lead the onsite team and will be the day to day contact for the audit. Harpaul will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management. Harpaul will undertake the more technical aspects of the audit, coach the junior members of the team and review the teams work.

### Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

### Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

# 10. Audit fees

## Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf, has been discussed with the s151 officer and is subject to PSAA agreement.

	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
Council Audit	£46,418	£43,742	£43,242
<b>Total audit fees (excluding VAT)</b>	<b>£46,418</b>	<b>£43,742</b>	<b>£43,242</b>

Page 25

### Assumptions:

In setting the above fees, we have assumed that the Authority will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

### Relevant professional standards:

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

# Audit fee variations – Further analysis

## Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

Audit area	£	Rationale for fee variation
Scale fee	35,742	
Raising the bar	2,500	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	1,750	Pensions is a key area of focus for the FRC, and we have therefore increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	1,750	PPE valuation is a key area of focus for the FRC, and we have therefore increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.
New standards/developments	1,500	We are required to respond within our audit to new accounting standards and we must ensure our audit work in new areas is robust and we advise you appropriately. This year we will both be responding to the introduction of IFRS16 relating to leases and leased assets.
Revised scale fee (to be approved by PSAA)	43,242	

# 11. Independence & non-audit services

## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

## Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following other services were identified:

Service	£	Threats	Safeguards
<b>Audit related:</b>			
Certification of the Housing Benefits Grant Claim	12,300	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,300 in comparison to the total fee for the audit of £43,242 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Authority's policy on the allotment of non-audit work to your auditors. All services have been approved by the s151 Officer. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

The firm is committed to improving our audit quality – please see our transparency report - <https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf>

# Appendix A: Audit Quality – national context

## What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

## Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

## What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

## What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.



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# Agenda Item 5



**Report to:** Audit Committee

**Date of Meeting:** 12 March 2020

**Report Title:** Audit Progress Report and Sector Update

**Report By:** Peter Grace, Assistant Director Financial Services & Revenues  
(Chief Finance Officer)

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## **Purpose of Report**

To inform the Audit Committee of External Audit progress in delivering their responsibilities and providing a Sector Update.

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## **Recommendation(s)**

- 1. That the report be noted**

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## **Reasons for Recommendations**

As a communication channel for Grant Thornton to inform the Committee on progress in delivering their responsibilities as our External Auditor and to provide a summary of emerging national issues and developments that are relevant to us as a local authority.

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## Introduction

1. The report summarises progress as at March 2020 including the status on each of the key external audit deliverables. It also lists a timetable of the main outputs expected to August 2020.
2. The second part of the report provides a sector update, specifically;

Brydon Review – The quality and effectiveness of audit

Redmond Review – Review of local authority financial reporting and external audit

National Audit Office – Code of Audit Practice

Financial Reporting Council – aid to Audit Committees in evaluating audit quality

Implementation of International Reporting Standard 16 - *Leases*

CIPFA Financial Resilience Index

3. The detailed report can be found at appendix A.
4. We are expecting a senior manager from Grant Thornton to present the report.

### Timetable of Next Steps

5. Please include a list of key actions and the scheduled dates for these:

Action	Key milestone	Due date (provisional)	Responsible
Not applicable – this is an information report for the public	-	-	-

---

**Wards Affected**

None.

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**Implications**

Relevant project tools applied? ~~Yes/No~~/N/A

Have you checked this report for plain English and readability? Yes/~~No~~

Climate change implications considered? ~~Yes~~/No

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

Equalities and Community Cohesiveness  
Crime and Fear of Crime (Section 17)  
Risk Management ✓  
Environmental Issues  
Economic/Financial Implications ✓  
Human Rights Act  
Organisational Consequences  
Local People's Views  
Anti-Poverty

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**Additional Information**

Appendix A – Audit Progress Report and Sector Update

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**Officer to Contact**

Tom Davies  
tdavies@hastings.gov.uk  
Telephone: 01424 451524

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# Audit Progress Report and Sector Update

Hastings Borough Council  
Year ending 31 March 2020  
31 March 2020



# Contents

Section	Page
Introduction	3
Progress at March 2020	4-5
Audit Deliverables	6
Results of Interim Audit Work	7-8
Sector Update	9-16

# Introduction



## Darren Wells

### Engagement Lead

T 01293 554120  
E Darren.J.Wells@uk.gt.com

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Page 37



## Andy Conlan

### Engagement Manager

T 02077 282492  
E Andy.N.Conlan@uk.gt.com

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications [www.grantthornton.co.uk](http://www.grantthornton.co.uk) ..

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

# Progress at March 2020

## Financial Statements Audit

We began our planning for the 2019/20 audit in November, and we began our interim audit in February 2020. Our interim fieldwork includes:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

The results of our work to date are included in this report.

We have issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2019/20 financial statements.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by July 2020.

## Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach are included in our Audit Plan. We will report our work in the Audit Findings Report and aim to give our Value For Money Conclusion by July 2020.

The NAO has consulted on a new Code of Audit Practice and published a draft version. Subject to Parliamentary approval the new Code will come into force no later than 1 April 2020 and includes significant changes to the auditor's Value for Money work. Please see page 11 for more details.

# Progress at March 2020 (Cont.)

## Other areas

### Certification of claims and returns

We certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. The certification work for the 2018/19 claim was completed during September to November 2019, and certified in advance of the 30 November deadline.

### Meetings

We met with Finance Officers in November to debrief on the previous year's audit process and as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

### Events

We provide a range of workshops, along with network events for members and publications to support the Council. We invite your officers to attend our Financial Reporting Workshop each year, which will help to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

## Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

# Audit Deliverables

2019/20 Deliverables	Planned Date	Status
<p><b>Fee Letter</b></p> <p>Confirming audit fee for 2018/19.</p>	April 2019	Complete
<p><b>Audit Plan</b></p> <p>We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements and a Conclusion on the Council's Value for Money arrangements.</p>	March 2020	Complete
<p><b>Interim Audit Findings</b></p> <p>We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.</p>	March 2020	Complete
<p><b>Audit Findings Report</b></p> <p>The Audit Findings Report will be reported to the July Audit Committee.</p>	July 2020	Not yet due
<p><b>Auditors Report</b></p> <p>This is the opinion on your financial statement, annual governance statement and value for money conclusion.</p>	July 2020	Not yet due
<p><b>Annual Audit Letter</b></p> <p>This letter communicates the key issues arising from our work.</p>	August 2020	Not yet due

# Results of Interim Audit Work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusions and recommendations
<b>Internal audit</b>	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have requested to review internal audit's work on the Council's key financial systems that have been prepared to date. The Head of Internal Audit have informed us that these will be available to the audit team upon completion of current ongoing work. We have not identified any significant weaknesses from our discussions with internal audit which impact on our responsibilities to date.</p>	Our review of internal audit work has not identified any weaknesses which impact on our audit approach (subject to full review upon completion of internal audit's work in progress)
<b>Entity level controls</b>	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.
<b>Review of information technology controls</b>	<p>We have performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.
<b>Walkthrough testing</b>	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a significant risk of material misstatement to the financial statements. We have also carried out walkthroughs in areas where we will be relying on the design effectiveness of Controls in place at the Council.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	Our work has not identified any weaknesses which impact on our audit approach.

# Results of Interim Audit Work (continued)

	Work performed	Conclusions and recommendations
<b>Journal entry controls</b>	We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.	Our work to date has not identified any weaknesses which impact on our audit approach.
<b>Early substantive testing</b>	We have carried out early substantive testing, covering the first nine months of the current financial reporting in the following areas. Other Revenues (fees, charges, other services), Operating Expenditure and Starters and Leavers covering Payroll.	<p>Our work to date has not identified any material weaknesses which may impact on our audit approach. However, this is subject to several outstanding queries which are required in order to understand the basis of transactions. Queries remain for 6 transactions within the Other Revenues Sample and 11 transactions within the Operating Expenditure sample. We are following these up with officers.</p> <p>We have not identified any issues within our Payroll testing to date.</p>

# Sector Update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local  
government

# Brydon Review – the quality & effectiveness of audit

The Brydon review is an independent review, led by Sir Donald Brydon, which has looked at the quality and effectiveness of audit, seeking to make proposals that will improve the UK audit ‘product’. The review has examined the nature and scope of audit from a user perspective and seeks to clarify and potentially close the ‘expectation gap’ (ie what stakeholders and society expect from audit compared to what it delivers today).

A full list of Sir Donald’s recommendations can be found online, and a brief summary is provided below:

## 14 Redefinition of audit and its purpose

- Creation of a corporate auditing profession, governed by principles
- Introduction of suspicion into the qualities of auditing
- Extension of the concept of auditing to areas beyond financial statements
- Mechanisms to encourage greater engagement of shareholders with audit and auditors
- Change in language of the opinion given by auditors
- Introduction of a corporate Audit and Assurance Policy, a Resilience Statement and a Public Interest Statement
- Suggestions to inform the work of BEIS on internal controls and improve clarity on capital maintenance
- Greater clarity around the roles of the audit committee
- A package of measures around fraud detection and prevention
- Improved auditor communication and transparency
- Obligations to acknowledge external signals of concern
- Extension of audit to new areas including Alternative Performance Measures
- Increased use of technology

On the auditor’s responsibility to detect fraud, Jonathan Riley, Grant Thornton Head of Quality and Reputation, said: “We are pleased to note that Sir Donald Brydon makes it clear that not only is there an expectation gap in relation to the purpose of audit and the detection of fraud but that the current ISAs need revision, and training of corporate auditors need to be enhanced, in order to allow auditors to better detect fraud. This is further reinforced by the new ability to make it easier for users of accounts, not just management, to inform the auditor of concerns relating to financial statements.”

“Notwithstanding these proposals, it is neither possible or desirable for an auditor to test in detail every transaction of the company and so materiality will still exist. In addition, a fraud involving collusion and sophistication may still prove extremely hard to detect.”

Grant Thornton welcomes the consideration given by Sir Donald on the quality and effectiveness of audit. These recommendations should bring far greater clarity and transparency to the profession and ultimately result in an audit regime that allows auditors to better assess, assure and inform all users of financial accounts.

Crucially, the Government must now consider these recommendations not just in context of earlier inquiries into the profession, but also against the backdrop of global trade and Britain’s future role as a pillar of global commerce. The report places new obligations not only on auditors, but also on company directors. Together with other regulations such as the revised Ethical Standard and wider corporate governance requirements, the proposed changes need to strike the right balance and not dent our place on the world’s financial stage. Careful explanation particularly of what this means to those fast growing mid-sized public entities seeking capital will be necessary.

The public perception of audit remains weak and failures continue to happen, so we agree that now is the right time to explore what needs to change to ensure that audit is fit for modern day business and meets the public interest. The report should contribute heavily towards this outcome.

Link to the full report and full list of recommendations:

<https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review>

# Redmond Review – Review of local authority financial reporting and external audit

The independent review led by Sir Tony Redmond sought views on the quality of local authority financial reporting and external audit. The consultation ran from 17 September 2019 to 20 December 2019.

Grant Thornton provided a comprehensive submission. We believe that local authority financial reporting and audit is at a crossroads. Recent years have seen major changes. More complex accounting, earlier financial close and lower fees have placed pressure on authorities and auditors alike. The target sign-off date for audited financial statements of 31 July has created a significant peak of workload for auditors. It has made it impossible to retain specialist teams throughout the year. It has also impacted on individual auditors' well-being, making certain roles difficult to recruit to, especially in remote parts of the country.

Meanwhile, the focus on Value for Money, in its true sense, and on protecting the interests of citizens as taxpayers and users of services are in danger of falling by the wayside. The use of a black and white 'conclusion' has encouraged a mechanistic and tick box approach, with auditors more focused on avoiding criticism from the regulator than on producing Value for Money reports that are of value to local people.

In this environment, persuading talented people to remain in the local audit market is difficult. Many of our promising newly qualified staff and Audit Managers have left the firm to pursue careers elsewhere, often outside the public sector, and almost never to pursue public audit at other firms. Grant Thornton is now the only firm which supports qualification through CIPFA. It is no longer clear where the next generation of local auditors will come from.

We believe that now is the time to reframe both local authority financial reporting and local audit. Specifically, we believe that there is a need for:

- More clearly established system leadership for local audit;
- Simplified local authority financial reporting, particularly in the areas of capital accounting and pensions;

- Investing in improving the quality of financial reporting by local bodies;
- A realistic timescale for audit reporting, with opinion sign off by September each year, rather than July;
- An increase in audit fees to appropriate levels that reflect current levels of complexity and regulatory focus;
- A more tailored and proportional approach to local audit regulation, implementing the Kingman recommendations in full;
- Ensuring that Value for Money audit work has a more impactful scope, as part of the current NAO Code of Audit Practice refresh;
- Introducing urgent reforms which help ensure future audit arrangements are sustainable and attractive to future generations of local audit professionals.

We note that Sir Donald Brydon, in his review published this week, has recommended that *“the Audit, Reporting and Governance Authority (ARGA) (the proposed new regulatory body) should facilitate the establishment of a corporate auditing profession based on a core set of principles. (This should include but not be limited to) the statutory audit of financial statements.”* Recognising the unique nature of public audit, and the special importance of stewardship of public money, we also recommend that a similar profession be established for local audit. This should be overseen by a new public sector regulator.

As the reviews by John Kingman, Sir Donald Brydon, and the CMA have made clear, the market, politicians and the media believe that, in the corporate world, both the transparency of financial reporting and audit quality needs to be improved. Audit fees have fallen too low, and auditors are not perceived to be addressing the key things which matter to stakeholders, including a greater focus on future financial stability. The local audit sector shares many of the challenges facing company audit. All of us in this sector need to be seen to be stepping up to the challenge. This Review presents a unique opportunity to change course, and to help secure the future of local audit, along with meaningful financial reporting.

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# National Audit Office – Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. 'Relevant authorities' are set out in Schedule 2 of the Act and include local councils, fire authorities, police and NHS bodies.

Local auditors must comply with the Code of Audit Practice.

## Consultation – New Code of Audit Practice from 2020

Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

In order to determine what changes might be appropriate, the NAO consulted on potential changes to the Code in two stages:

**Stage 1** involved engagement with key stakeholders and public consultation on the issues that are considered to be relevant to the development of the Code.

The NAO received a total of 41 responses to the consultation which included positive feedback on the two-stage approach to developing the Code that has been adopted. The NAO stated that they considered carefully the views of respondents in respect of the points drawn out from the [Issues paper](#) and this informed the development of the draft Code. A summary of the responses received to the questions set out in the [Issues paper](#) can be found below.

[Local audit in England Code of Audit Practice – Consultation Response \(pdf – 256KB\)](#)

**Stage 2** of the consultation involved consulting on the draft text of the new Code. To support stage 2, the NAO published a consultation document, which highlighted the key changes to each chapter of the draft Code. The most significant changes are in relation to the Value for Money arrangements. The draft Code includes three specific criteria that auditors must consider:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

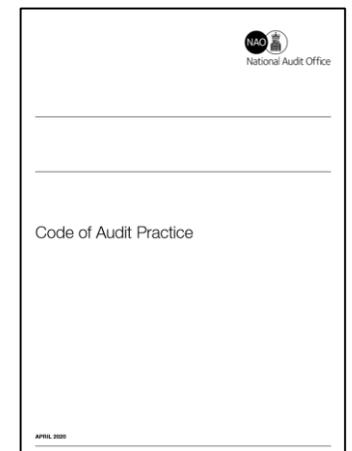
The auditor will be required to provide a commentary on the arrangements in place to secure value for money. Where significant weaknesses are identified the auditor should make recommendations setting out

- Their judgement on the nature of the weakness identified
- The evidence on which their view is based
- The impact on the local body
- The action the body needs to take to address the weakness

The consultation document and a copy of the new Code can be found on the NAO website. The new Code will apply from audits of local bodies' 2020-21 financial statements onwards.

Link to NAO webpage for the new Code:

[https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code\\_of\\_audit\\_practice\\_2020.pdf](https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf)



# Financial Reporting Council – aid to Audit Committees in evaluating audit quality

On 19 December the Financial Reporting Council (FRC) issued an update of its Practice Aid to assist audit committees in evaluating audit quality in their assessment of the effectiveness of the external audit process.

The FRC notes that, “The update takes account of developments since the first edition was issued in 2015, including revisions of the UK Corporate Governance Code, the requirement for all Public Interest Entities (PIEs) to conduct a tender at least every 10 years and rotate auditors after at least 20 years, and increasing focus generally on audit quality and the role of the audit committee. It also takes account of commentary from audit committees suggesting how the Practice Aid could be more practical in focus and more clearly presented.

The framework set out in the Practice Aid focuses on understanding and challenging how the auditor demonstrates the effectiveness of key professional judgments made throughout the audit and how these might be supported by evidence of critical auditor competencies. New sections have been added addressing the audit tender process, stressing that high-audit quality should be the primary selection criterion, and matters to cover in audit committee reporting.

As well as illustrating a framework for the audit committee’s evaluation, the Practice Aid sets out practical suggestions on how audit committees might tailor their evaluation in the context of the company’s business model and strategy; the business risks it faces; and the perception of the reasonable expectations of the company’s investors and other stakeholders. These include examples of matters for the audit committee to consider in relation to key areas of audit judgment, and illustrative audit committee considerations in evaluating the auditor’s competencies.

The FRC encourages audit committees to use the Practice Aid to help develop their own approach to their evaluation of audit quality, tailored to the circumstances of their company. Audit committees are encouraged to see their evaluation as integrated with other aspects of their role related to ensuring the quality of the financial statements – obtaining evidence of the quality of the auditor’s judgments made throughout the audit, in identifying audit risks, determining materiality and planning their work accordingly, as well as in assessing issues.”



The Practice Aid can be obtained from the FRC website:

<https://www.frc.org.uk/getattachment/68637e7a-8e28-484a-aec2-720544a172ba/Audit-Quality-Practice-Aid-for-Audit-Committees-2019.pdf>

# Implementation of International Financial Reporting Standard 16 Leases

IFRS 16 *Leases*, as interpreted and adapted for the public sector, will be effective from 1 April 2020.

## Background

IFRS 16 Leases was issued by the International Accounting Standards Board (IASB) in January 2016 and is being applied by HM Treasury in the Government Financial Reporting Manual from 1 April 2020. Implementation of the Standard will be included in the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) for 2020/21.

The new Standard replaces the current leasing standard IAS 17 and related interpretation documents IFRIC 4, SIC 15 and SIC 27 and it sets out the principles for the recognition, measurement, presentation and disclosure of leases. The IASB published IFRS 16 because it was aware that the previous lease accounting model was criticised for failing to provide a faithful representation of leasing transactions.

## Impact on 2019/20 financial statements

Whilst the new Standard is effective from 1 April 2020, authorities are required by the Code to *'disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted'*. This requirement of the Code (3.3.4.3) reflects the requirements of paragraph 30 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

In the 2019/20 financial statements we would therefore expect to see authorities make disclosures including:

- the title of the Standard
- the date of implementation
- the fact that the modified retrospective basis of transition is to be applied, with transition adjustments reflected through opening reserves
- known or reasonably estimable information relevant to assessing the possible impact that application will have on the entity's financial statements, including the impact on assets, liabilities, reserves, classification of expenditure and cashflows
- the basis for measuring right of use assets on transition
- the anticipated use of recognition exemptions and practical expedients recognising that what is sufficient disclosure for one body may not be sufficient for another

## Information needed for 2019/20 financial statements

In order to make disclosures in 2019/20, a significant amount of data will be needed, most significantly:

- a complete list of leases previously identified under IAS 17 and IFRIC 4
- details of non-cancellable lease terms, purchase options, extension and termination options
- details of lease arrangements at peppercorn or NIL rental
- anticipated future cash flows and implicit interest rates or incremental borrowing rates to enable calculation of lease liabilities

## Audit work on IFRS 16 transition

At this stage, we would expect you to have:

- determined whether the impact of IFRS 16 will be material for your authority
- raised awareness of the new Standard across the authority, potentially including procurement, estates, legal and IT departments
- assessed the completeness and accuracy of your lease register and taken action if necessary
- formalised and signed existing lease documentation
- identified leases of low value assets and leases with short terms
- considered whether liaison with valuation experts is necessary
- started to draft your 2019/20 disclosure note
- started to embed processes to capture the data necessary to manage the ongoing accounting implications of IFRS 16

and that you are monitoring progress against an approved IFRS 16 implementation plan. Your local engagement team will be in touch to discuss your progress with IFRS 16 implementation and audit working paper requirements.

# Implementation of International Financial Reporting Standard 16 *Leases*

## Further information and guidance

CIPFA published their 2020/21 Code consultation on 12 July 2019, including an Appendix concerned with IFRS 16 implementation, further details can be found at:

<https://www.cipfa.org/policy-and-guidance/consultations-archive/code-of-practice-on-local-authority-accounting-in-the-united-kingdom-202021?crdm=0>

HM Treasury published IFRS 16 Application Guidance in December 2019 which can be found at:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/853238/IFRS\\_16\\_Application\\_Guidance\\_December\\_2019.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/853238/IFRS_16_Application_Guidance_December_2019.pdf)

CIPFA's IFRS 16 'Early guide for local authority practitioners' is available at:

<https://www.cipfa.org/policy-and-guidance/publications/i/ifrs-16-leases-an-early-guide-for-local-authority-practitioners>

IFRS 16 has been adopted a year earlier in the commercial sector. The Financial Reporting Council has published an IFRS 16 Thematic Review '*Review of Interim Disclosures in the First Year of Application*', containing key findings from their review and providing helpful insights into important disclosure requirements. The FRC's publication is available at:

<https://www.frc.org.uk/getattachment/a0e7c6e7-67d0-40fe-b869-e5cc589afe79/IFRS-16-thematic-review-2019-optimised.pdf>.

## Financial Reporting



### Challenge question:

Does your authority have a project plan in place in relation to IFRS 16 *Leases* implementation?

Is your authority's progress against the project plan on track?

# CIPFA Financial Resilience Index

The Chartered Institute of Public Finance & Accountancy's (CIPFA) Financial Resilience Index is a comparative tool designed to provide analysis on resilience and risk and support good financial management.

CIPFA note "The index shows a council's position on a range of measures associated with financial risk. The selection of indicators has been informed by the extensive financial resilience work undertaken by CIPFA over the past four years, public consultation and technical stakeholder engagement. The index is made up of a set of indicators. These indicators take publicly available data and compare similar authorities across a range of factors. There is no single overall indicator of financial risk, so the index instead highlights areas where additional scrutiny should take place in order to provide additional assurance. This additional scrutiny should be accompanied by a narrative to place the indicator into context."

At the launch of the index in December, CIPFA commented "the index analyses council finances using a suite of nine measures including level of reserves, rate of depletion of reserves, external debt, Ofsted judgements and auditor value for money assessments."

CIPFA found that against these indicators the majority of councils are not showing signs of stress. But around 10% show "some signs of potential risk to their financial stability."



The Financial Resilience tool is available on the CIPFA website below:

<https://www.cipfa.org/services/financial-resilience-index/>

## Financial Resilience

### Challenge question:

Has your Authority used the CIPFA index and fed back the key messages?



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# Agenda Item 6



**Report to:** Audit Committee

**Date of Meeting:** 12 March 2020

**Report Title:** Proposed Internal Audit Plan 2020/21

**Report By:** Tom Davies, Chief Auditor

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## **Purpose of Report**

To consider the proposed internal audit plan for 2020/21.

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## **Recommendation(s)**

- 1. That the Audit Committee approves the Internal Audit Plan 2020/21**

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## **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.

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## Introduction

1. The audit programme for 2020/21 has been produced after communication with Assistant Directors, Senior Managers 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 Strategic and Operational Risk Registers have been referred to.
3. The plan is developed in relation to planning assumptions reviewed annually and made in accordance with available days.
4. 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 2 years.
5. The specific terms of reference for each audit will be agreed with the relevant Directors and Assistant Directors before commencement of each assignment.
6. As in previous years, audit carries out some ad-hoc work, some of which has and will continue to be significant. In 2019/2020, Internal Audit will for example be involved in:
  - the implementation of "Income Manager" - a system element of the new Unit4BW system, specifically for all the activities involved in the receipting of payments from a wide range of sources.
  - CHART
  - Contract Audit of final accounts
  - Museums and Arts grant sign-offs
  - Main year for NFI uploads due by 30 September

	Fundamental and Financial Audits	Risk Reviews, Follow-up and Other
April	Payroll (carried forward from 2019/2020)	Syrian Refugees Resettlement Programme - update
May		Single Person Discount review and NFI Data Matching clearance
June	Housing Benefits	
July		
August	National Non-Domestic Rate (NNDR)	Emerging Risks (to be advised)
September		
October	IT Council Resilience	Business Recovery
November		
December	Debtors	Value for Money work (to be advised)
January		Emerging Risks (to be advised)
February	International Auditing Standards Compliance work covering all Fundamental financial controls	Post Implementation Review of ERP phase I (focused on system functionality) (Deferred from 2019/2020)
March		Annual Reporting – Annual Governance Statement, Audit Committee Report to Council and Annual Audit Plan

<b>Assignment</b>	<b>Reason</b>	<b>Outline Scope</b>
Payroll (carried forward from 2019/2020)	Core audit 2018/19	Carried forward from the 2019/2020 audit plan.
Syrian Refugees Resettlement Programme - update	Audit request	To follow up previous audit report and its recommendations and to ensure that there is effective oversight.
Single Person Discount review and NFI Data Matching clearance	Audit request	To investigate accuracy of the application of Single Person Discount in tandem with clearance of the National Fraud Initiative matching exercise releases March 2020.
Housing Benefit	Cyclical regulatory - Expected by External Audit	Comprehensive programme as per programme carried out in previous years.
National Non-Domestic Rate	Cyclical regulatory - Expected by External Audit	Comprehensive programme as per programme carried out in previous years.
IT Council Resilience	Audit request	A thorough examination of all security and protection arrangements around the council's IT systems and recovery procedures (starting from even before trying to access our systems through to complete recovery).
Business Recovery	Audit request	To independently ascertain that staff are familiar with their Business Recovery plans.
Debtors	Cyclical regulatory - Expected by External Audit	Comprehensive programme as per programme carried out in previous years.

Post Implementation Review of ERP phase I (focused on system functionality) (Deferred from 2019/2020)

Audit request

Deferred from the 2019/2020 plan to allow more complete implementation, to assess whether the council is achieving full functionality from the ERP system phase I.

International Auditing Standards Compliance work covering all Fundamental financial controls

Audit request

No longer required by External Audit but is a structured way of reviewing all of the main financial controls.

## Timetable of Next Steps

7. Please include a list of key actions and the scheduled dates for these:

Action	Key milestone	Due date (provisional)	Responsible
Circulate to CMG when approved	-	13 March 2020	Chief Auditor

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### Wards Affected

None.

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### Implications

Relevant project tools applied? ~~Yes/No~~/N/A

Have you checked this report for plain English and readability? Yes/~~No~~

Climate change implications considered? ~~Yes/No~~ – N/A

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

Equalities and Community Cohesiveness

Crime and Fear of Crime (Section 17)

Risk Management ✓

Environmental Issues

Economic/Financial Implications ✓

Human Rights Act

Organisational Consequences

Local People's Views

Anti-Poverty

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### Additional Information

The following internal documents were used:

Operational Risk Register

Planning assumptions

Cyclical audit frequency document

Resource planning paper

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### Officer to Contact

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