
Planning Letter 2012/13

REPORT TO AUDIT COMMITTEE

Lewes District Council

NOVEMBER 2012



proposed audit fees

INTRODUCTION

We are required to report to you our proposed fees and programme of work for the 2012/13 financial year.

The fee is based on the work required under the Audit Commission's *Code of Audit Practice* and our assessment of risk and audit resource required to complete this work, taking into account the strength of your control environment, coverage of internal audit work and previous audit experience.

The audit fee covers:

- audit of the financial statements
- value for money conclusion.

PROPOSED FEES

A summary of the proposed fee, and how it compares to the current published Audit Commission scale fee for 2012/13 and the actual fees for 2011/12, is shown below:

Audit area	Proposed fee 2012/13 (£)	Published scale fee 2012/13 (£)	Actual 2011/12 fee (£)
Code audit work			
- financial statements	47,700		81,650
- value for money conclusion	13,290		22,150
Total Code audit work	60,990	⁽¹⁾ 60,990	⁽²⁾ 103,800
Objections and complaints			
- objection from elector	-	-	-
Certification fees			
- Grants and returns	13,750	13,750	TBC
Total proposed fees	74,740	74,740	TBC

In March 2012 the Audit Commission completed its procurement exercise to award new contracts and was able to secure significant reductions in the cost of audit services. Together with further savings achieved through efficiencies, the Audit Commission has been able to pass on reductions of up to 40 per cent in audit fees for the five years of the contracts.

The published scale fee for 2012/13⁽¹⁾ is based on 60 per cent of the original proposed, and final outturn, fee for 2011/12 of £101,650. Following the identification of additional risks relating to the 2011/12 financial statements, and the need for associated audit work, this was increased to £103,800⁽²⁾.

For 2012/13, the Audit Commission has replaced the previous schedule of maximum hourly rates with a composite indicative fee for certification work. The indicative fee is based on actual certification fees for 2010/11 adjusted to reflect the fact that a number of schemes will no longer require auditor certification, and incorporating a 40 per cent reduction. The audit of the certification returns for 2011/12 has recently been completed and we will separately report on the final fees in our Certification report 2011/12.

VARIATION TO PUBLISHED SCALE FEE

We do not currently propose any variation to the published scale fee for the audit, or to the composite indicative fee for certification work.

NON-AUDIT ASSURANCE WORK

At this stage, we do not propose any variation to the published scale fee for the Code audit work or the composite indicative fee for certification work.

HOW TO REDUCE THE AUDIT FEE

The fee reflects the good cooperation with, and coverage of, the work undertaken by internal audit. There are limited opportunities to further reduce fees.

proposed work

INTRODUCTION

A separate audit plan will be issued early in 2013 once we have completed our detailed risk assessment. This will detail the significant financial statements risks and value for money risks identified, our planned audit procedures to respond to those risks and any associated changes in fee.

In this Planning Letter we outline the proposed work programme and planned risk-based value for money work.

FINANCIAL STATEMENTS

Our audit strategy proposes that we obtain assurances over the financial statements using a combination of testing the effectiveness of the Council's internal controls, testing a sample of transactions and balances in the accounts, and analytical procedures.

We will seek to rely on the work of any management expert used to prepare items in the accounts, such as land and property valuations provided, pensions actuaries for valuation of the Council's share of the pension fund assets and liabilities, and insurance actuaries for assessing insurance provisions and reserves.

To date, we have noted the following areas that may impact on our proposed approach to the audit of the financial statements for 2012/13. However, none of these constitute a significant audit risk:

Municipal Mutual Insurance (MMI)

Under the scheme of arrangement with MMI, local authorities may be required to reimburse amounts to MMI in the event that it does not have sufficient resources to meet its insured obligations. MMI was recently subject to a legal ruling regarding a claim for mesothelioma that confirmed that it remains responsible for liabilities that existed at the time of exposure, rather than from the time the symptoms start to develop. There is an expectation that MMI will now be subject to many similar claims and has indicated that the scheme of arrangement may need to be triggered.

The Council reported this event and potential exposure as a contingent liability in the 2011/12 financial statements and has included an amount within its reserves as advised by its consulting insurer. Further information is likely to be made available from MMI regarding the financial impact of this ruling and the Council, along with many other local authorities, will need to consider if the judgement creates greater

certainty about the likelihood of their liability crystallising and whether it should therefore report amounts as a provision within the financial statements.

Purchase to pay system

During late 2012, the Council has commenced upgrading its purchasing system to enable departmental staff to input and authorise invoices for goods and services prior to payment by the finance department. To date the upgrade has only been rolled out to some departments, with the remaining departments planned for early 2013.

Internal audit will be performing a review of the controls in place and we will review this work to assess the impact on our audit approach.

2013/14 issues

Although not directly impacting on the 2012/13 financial statements, there are a number of developments that are likely to impact on the Council in 2013/14 where we would wish to maintain on going dialogue:

- valuation of infrastructure on a depreciated replacement cost rather than historical cost to align with HM Treasury guidance.

VALUE FOR MONEY

We are required to assess the Council's arrangements to:

- secure financial resilience
- challenge how it secures economy, efficiency and effectiveness.

We have noted the following local risks that impact on our value for money audit:

Medium term financial strategy

Government continues to reduce funding for local government over the Spending Review period, and combined with additional pressures arising from demographic and other changes, will have a significant impact on councils.

Changes to the arrangements for funding council tax support and the business rate retention scheme, along with the transfer of responsibility for public health, also brings added uncertainty to the medium term financial strategy.

We intend to review the Council's medium term financial strategy to assess how well it is addressing these pressures and to review financial resilience.

Nexus programme

As part of its response to the continued financial constraints arising from the reductions in central government funding, the Council has implemented the Nexus programme for review of all of its service provision to assess ways in which the efficiency could be improved.

Part of this programme includes the rationalisation of the council's accommodation requirements, with resultant sales of properties considered as surplus. There will also be changes in the way in which the council operates, with a move towards a more paperless arrangement.

We will review the impact these changes are having on the Council's operation as they are being implemented.

CHANGES TO PROPOSED WORK AND FEES

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

planned outputs

REPORTS AND OPINIONS

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

- audit plan (March 2013)
- if appropriate, report on significant deficiencies in internal controls (May 2013)
- annual governance report (September 2013)
- auditor's report with opinion on the financial statements and value for money conclusion (September 2013)
- auditor's report and assurance statement on the Whole of Government Accounts L-Pack (October 2013)
- annual audit letter (October 2013)
- grants claims and returns certification report (January 2014).

audit team

KEY MEMBERS OF THE AUDIT TEAM

Engagement Lead – Richard Bint

email: richard.bint@uk.pkf.com

Tel: 020 7065 0497

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

Engagement Manager – Stuart Frith

email: stuart.frith@uk.pkf.com

Tel: 020 7065 0432

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

Team Leader – Jamie Chapple

email: jamie.chapple@uk.pkf.com

Jamie will lead the delivery of the accounts audit.

CLIENT SATISFACTION

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