
Planning Letter 2012/13

REPORT TO AUDIT COMMITTEE

Hastings Borough Council

DECEMBER 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 (including the whole of government assurance statement)
- value for money conclusion.

PROPOSED FEES

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

Audit area	Proposed fee 2012/13 (£)	Scale fee 2012/13 (£)	Actual fee 2011/12 (£)
Code audit work			
- Financial statements	41,400	-	74,350
- Value for money conclusion	19,590	-	32,650
Total Code audit work	60,990	60,990	107,000
Certification fees			
- Grants and returns	16,300	16,300	25,313
Total proposed fee	77,290	77,290	132,313

AUDIT COMMISSION SCALE FEE CHANGES

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 of £60,990 for 2012/13 is based on 60 per cent of the scale fee for 2011/12 of £101,650. The final outturn fee for 2011/12 was £107,000.

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 60 per cent of actual certification fees for 2010/11 adjusted to reflect the fact that a number of schemes will no longer require auditor certification. The scale fee for 2012/13 is £16,300. The final outturn fee for 2011/12 is proposed as £25,313.

We have not proposed any variation to the scale fee or the composite indicative fee for certification work at this stage.

NON-AUDIT ASSURANCE WORK

We have not proposed undertaking any non-audit work. Any proposal will be discussed with management and then reported to the Audit Committee.

HOW TO REDUCE THE AUDIT FEE

Based on our preliminary assessment of the Council's risks, it is considered unlikely that we would be able to reduce the audit fee significantly below the scale fee in 2012/13. However, the Council may be able to reduce the audit fee for the certification of government returns by involving the Internal Audit section in the detailed testing of transactions for the national non-domestic rates return.

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 not identified any significant risks that may impact on our proposed approach to the audit of the financial statements for 2012/13. The Council's arrangements for preparing the annual financial statements were effective in previous years and in 2011/12 we completed a detailed review of the Council's accounting treatment of transactions involving the Local Authority Mortgage Scheme and the expenditure incurred in partnership with a Housing Association to bring residential properties back into use. We will review such transactions to ensure consistency with the Council's accounting policies and that relevant accounting standards are followed.

2013/14 issues

Although not directly impacting on the 2012/13 financial statements, the valuation of infrastructure on a depreciated replacement cost rather than historical cost to align with HM Treasury guidance is a change that is likely to impact on the Council in 2013/14 and where we would wish to maintain on going dialogue

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

The Government continues to reduce funding for local government over the Spending Review period. Combined with additional pressures arising from demographic and other changes, further risks are emerging for all Councils to balance their financial positions over the medium and longer term planning horizons. Hastings expects transitional funding previously provided by the Government to be removed in 2013/14. Action agreed in previous years to balance the medium term financial strategy remains a focus in 2013 to ensure the Council continues to meet its priorities within a reduced resource base.

Changes to the arrangements for funding council tax support and the business rate retention scheme bring 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.

Management restructure

Action was taken in 2012 to restructure the senior management team to reduce the number of senior manager posts, redefine roles and responsibilities and to remove the post of Chief Executive. The Council expects to secure significant savings and other efficiencies from its revised structures.

We will review the impact of the new structures on the day to day operations of the organisation and consider the outcome of the Council's post implementation review. We will also consider the extent of savings and other efficiencies secured compared to the Council's plans.

Waste management services outsourcing

A partnership with three other Councils in East Sussex is now in place to secure the procurement of waste management services across four districts. Resources are being pooled to maximise the procurement savings available to all Councils involved.

Hastings is due to fully implement the changes required by the partnership, including a new waste contractor, in June 2013.

We will discuss with management how the new contract is progressing and the developing arrangements for future delivery. We will ensure such work is co-ordinated across all of the Councils involved in the new contract.

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 Chief Finance Officer 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 (February 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)
- grant claims and returns certification report (January 2014).

audit team

KEY MEMBERS OF THE AUDIT TEAM

Engagement Lead – Robert Grant

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Tel: 020 7065 0170

Robert 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 – Christopher Jones

email: christopher.jones@uk.pkf.com

Chris 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 Robert Grant 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”).