

AUDIT COMMITTEE

11 JULY 2013

EXTERNAL AUDIT PLANNING LETTER 2013/2014

Report from: Mick Hayward, Chief Finance Officer

Author: Mick Hayward, Chief Finance Officer

Summary

This report and attachment sets out the proposed external audit plan for 2013/2014. The Council's external auditors (BDO) have produced the plan and it is reported to this committee to comply with governance requirements.

1. Budget and Policy Framework

1.1 International Standards on Auditing require the audit plan to be communicated to 'those charged with governance.' The terms of reference of this committee include: discussions with the external auditor on new accounting standards, changes to the reporting framework and the basis of the annual audit, including the content of performance work.

2. Background

2.1 In accordance with the International Standards on Auditing (UK and Ireland) 260 it is necessary to communicate the annual audit plan for 2013/2014.

2.2 As the external auditor, independently appointed by the Audit Commission, BDO has a responsibility to audit and provide an opinion on the Statement of Accounts and to provide a conclusion on the use of resources.

2.3 The planning letter for 2013/2014, produced by BDO, is attached as Appendix 1 to this report.

3. Scope of the Plan

3.1 The overall scope of the work to be carried out is determined by the Audit Commission's Code of Audit Practice and BDO have drawn up the detailed plan in accordance with their risk based approach to audit planning and planning meetings held. BDO will target work where it will have the greatest effect based upon assessments of risk and performance.

3.2 The scope of the audit work is set out in the attached plan and indicated areas where the approach to audit will change as a consequence of revised International Standards on Auditing which apply to local authority financial statements for years ending on or after 15 December 2011.

4. Financial and Legal Implications

4.1 Audit fees are calculated in accordance with national scales established by the Audit Commission. BDO have confirmed their fee as £188,460 which is a £19,000 decrease on the provisional fee for 2012/13.

4.2 The planned fee for certification of grant claims and returns is £22,400 which represents a small reduction on the proposed fee for 2012/13.

4.3 The International Standards on Auditing require the plan to be communicated to discharge governance requirements.

5. Risk Analysis

5.1 BDO have assessed the key audit risks which are contained within Appendix A of the audit plan. However, there will always be a risk that the auditor may find material errors or misstatements in the accounts and the results of the audit of the statements will not be known before they are presented for adoption by the Council as part of the Audit Committee function.

6. Recommendation

6.1 That the Audit Committee accepts the proposed annual audit plan for 2013/2014.

Background papers

None

Report author: Mick Hayward, Chief Finance Officer.

PLANNING LETTER 2013/14

Report to Audit Committee

Medway Council

APRIL 2013



PROPOSED AUDIT FEES

Introduction

We are required to report to you our proposed fees and programme of work for the 2013/14 financial year. The fee is based on the work required under the Audit Commission's *Code of Audit Practice* and our assessment of the audit resources 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 the:

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

Proposed fees

A summary of the proposed fee, and how it compares to the published Audit Commission scale fee for 2013/14, and the current proposed fees for 2012/13, is shown below.

Audit area	Proposed fee	
	2013/14 (£)	2012/13 (£)
Code audit work		
scale fee	188,460	188,460
variation	-	19,000
Total Code audit work	188,460	207,460
Objections and complaints	-	-
Certification fees	22,400	23,950
scale fee variation	-	-
Total certification fee	22,400	23,950
Total proposed fees	£210,860	£231,410

Audit commission scale fee

In December 2012, the Audit Commission published a consultation document setting out the work that auditors should undertake at Local Authorities during 2013/14 and the associated scales of audit fees. The Commission confirmed the final work programme and scales of fees for 2013/14 in March 2013.

The Audit Commission has not made any changes to the work programme for Local Government bodies for 2013/14. The fees proposed for the code audit work remain at the same level as the fees applicable for 2012/13. The Certification scale fee proposed has reduced by £1,550 compared to the proposed scale fee in 2012/13.

The Commission has committed to undertaking an annual review of the work programme and fees and will be revisiting scale fees for future years in due course.

Questions and objections

Should any arise, time spent dealing with questions and objections will be billed separately. Where possible we will provide an estimate of the likely time required to respond to the matters before starting the work.

Non-audit assurance work

We have not proposed undertaking any non-audit work.

Billing arrangements

The Code audit fee will be billed as four equal instalments of £47,115 in June 2013, September 2013, December 2013, and March 2014. Fees for the certification of grants and returns will be billed upon completion of each relevant return.

PROPOSED WORK

Introduction

A separate Audit Plan will be issued once we have completed our detailed risk assessment and the audit of the 2012/13 financial statements. This will detail the significant financial statements risks and value for money risks that we have 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.

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 financial statements, and analytical procedures.

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

To date, we have noted the following that may impact on our proposed approach to the audit of the financial statements for 2013/14:

- valuation of infrastructure on a depreciated replacement cost rather than a historical cost basis to align with HM Treasury guidance
- CIFPA consultation on recognition of schools' assets
- impact of localisation of business rates and council tax on the Collection Fund.

Preparation of financial statements

The Council should continue to work towards and update its improvement plan to ensure fully effective arrangements for producing the annual financial statements are embedded.

We will continue to work with officers and undertake an early review of balances and proposed accounting treatment in the lead up to producing the 2013/14 financial statements.

Value for money

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

- secure financial resilience: the organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
- challenge how it secures economy, efficiency and effectiveness: the organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We have noted the following that may 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, and combined with additional pressures arising from demographic and other changes, will continue to 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.

Health and Wellbeing Board

The Health and Wellbeing Board will assume its full statutory powers from April 2013, bringing together all areas of local government, the NHS and Medway residents. We will continue to assess the progress made by the Medway Health and Well Being Board to address health issues and inequalities across the area with its partners.

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 seek approval from the Audit Commission for a proposed variation of fee. If necessary, we will also prepare a report outlining the reasons why the fee needs to change for discussion with the Committee.

PLANNED OUTPUTS

Reports and opinions

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

- Audit Plan (January 2014)
- if appropriate, report on significant deficiencies in internal controls (May 2014)
- Annual Governance Report (September 2014)
- auditor's report with opinion on the financial statements and value for money conclusion (September 2014)
- auditor's report and assurance statement on the Whole of Government Accounts return (September 2014)
- Annual Audit Letter (October 2014)
- grant claims and returns certification report (January 2015).

AUDIT TEAM

Key members of the audit team

Engagement Lead - Robert Grant

email: Robert.Grant@bdo.co.uk

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 - Kerry Barnes

email: Kerry.Barnes@bdo.co.uk

Tel: 020 7065 0217

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

Team Leader - Jody Etherington

email: Jody.Etherington@bdo.co.uk

Tel: 020 7065 0485

Jody will lead the delivery of the financial statements 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, Simon Michaels. Any complaint will be investigated carefully and promptly. If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales (“ICAEW”).