

Report to: **Audit, Best Value and Community Services Scrutiny Committee**

Date: **15 March 2013**

By: **Chief Executive**

Title of report: **External Audit Plan 2012/13**

Purpose of report: **To inform the Committee of the content of the external audit plan for 2012/13**

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**RECOMMENDATION: The Committee is recommended to consider and comment upon the External Audit Plan for 2012/13.**

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## **1. Financial Appraisal**

1.1 The Plan confirms the core external audit fee as £112,479 a reduction of 39% on 2011/12. The fee for 2012/13 has been reduced compared to 2011/12 to reflect the combined impact of the Audit Commission's outsourcing of its in-house Audit Practice and internal efficiency savings at the Audit Commission. The fee reflects the good cooperation with, and coverage of, the work undertaken by the Council internal audit. The proposed fee for the certification of claims and returns is £6,350, which agrees to the composite scale fee published by the Audit Commission.

## **2. Supporting Information**

2.1 The Plan sets out in more detail the work the external auditors will conduct in order to audit the Council's 2012/13 accounts. The Plan now reflects any relevant issues that have arisen as a result of the audit of the 2011/12 accounts and other work carried out by PKF. The main risks identified by PKF are:

- Inherent risk of management over-ride of controls
- Risk of fraud affecting the recognition of revenue
- Resources to meet the Municipal Mutual Insurance (MMI) scheme obligations.
- Future decommissioning costs of landfill sites
- Reasonableness of Adult Social Care estimates
- Medium term financial strategy that addresses funding reduction
- Public health transfers from the NHS to local authorities
- Management restructure and accounting for termination costs.

2.2 Officers will continue to liaise with PKF to ensure that their work is delivered as efficiently and effectively as possible and that internal and external audit plans are complementary and make best use of audit resources. The Plan will be reported to Cabinet for approval on 16 April.

BECKY SHAW  
Chief Executive

Contact Officers Ola Owolabi, 01273 482017  
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Local Member: All

Background Documents None



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# Audit Plan 2012/13

REPORT TO THE AUDIT, BEST VALUE AND COMMUNITY SERVICES SCRUTINY COMMITTEE

East Sussex County Council

FEBRUARY 2013



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## **Disclaimer**

The *Code of Audit Practice* and *Statement of Responsibilities of Auditors and Audited Bodies* issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members and officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any member of officer in their individual capacity or to any third party.

We accept no responsibility for any reliance that might be placed on reports and letters for any purpose by third parties, to whom it should not be shown without our prior written consent.

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# 1 Executive summary

We are pleased to present our Audit Plan for the year ending 31 March 2013. This plan summarises our proposed audit work for the year for East Sussex County Council, the significant risks that impact on our audit and our planned work in response to those risks.

## AUDIT SCOPE AND RESPONSIBILITIES

The scope of the audit is determined by the Audit Commission's *Code of Audit Practice for Local Government (March 2010)* and requires us to review and report on your:

- financial statements
- arrangements for securing economy, efficiency and effectiveness in the use of resources.

BDO LLP and PKF (UK) LLP recently announced that we have agreed to merge our businesses and this is expected to be completed in spring 2013. We have undertaken a review of the procurement consultancy and support provided by BDO LLP to the Council in recent years and consider that this does not present a threat to our independence and objectivity as auditor.

## RISK ASSESSMENT

We have identified the following areas of significant risk that impact on our audit:

### Financial statements

- management override of controls
- revenue recognition
- potential liability to repay amounts to Municipal Mutual Insurance under its scheme of arrangement
- potential recognition of future costs for decommissioning landfill sites
- estimation of adult social care costs due at year end
- estimation of provision for termination costs arising from the restructure of support services

### Use of resources

- managing future funding shortfalls through the Medium term financial strategy
- developing appropriate strategies through the Health and Wellbeing Board to address public health and inequalities
- delivering savings while providing appropriate levels of service through the restructure of support services.

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## REPORTING AND COMMUNICATIONS

We will provide an opinion on your financial statements and a conclusion on your arrangements to secure economy, efficiency and effectiveness by 30 September 2013. We will provide our detailed report on findings and conclusions to the Audit, Best Value and Community Services Scrutiny Committee ahead of the reporting deadline and provide progress reports throughout the year.

In addition, we will provide an Annual Audit Letter summarising the key issues from our audit, as a public facing document to be included on your website. We will also provide a report summarising our grants certification work for the year.

## FEES

The proposed audit fee for the year is £112,479 plus VAT. As noted in our Planning Letter 2012/13, the proposed fee has been increased above the Audit Commission's published scale fee by £1,050 to reflect the agreed additional work required for the audit of the collection fund each year.

The proposed fee for the certification of claims and returns is £6,350 plus VAT, which agrees to the composite scale fee published by the Audit Commission.

The fee for 2012/13 has been reduced compared to 2011/12 to reflect the combined impact of the Audit Commission's outsourcing of its in-house Audit Practice and internal efficiency savings at the Audit Commission.

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# 2 Audit scope and responsibilities

## PURPOSE OF THIS REPORT

We are pleased to present our Audit Plan for the year ending 31 March 2013, to set out a mutual understanding of our respective responsibilities, and to promote effective two-way communication between us.

This plan summarises our proposed audit work for the year for East Sussex County Council, the significant risks that impact on our audit and our planned work in response to those risks.

The information and fees in this plan will be kept under review throughout the year and updated as necessary for any significant changes to risks and the focus of the audit, which will be reported to the Audit, Best Value and Community Services Scrutiny Committee.

## COMMUNICATION

Auditing Standards require auditors to communicate relevant matters relating to the audit to “those charged with governance”. Relevant matters include issues on auditor independence (below), audit planning information and significant risks (section 3) and findings from the audit (section 4).

## SCOPE OF THE AUDIT

The scope of the audit is determined by the Audit Commission’s *Code of Audit Practice for Local Government (March 2010)* which describes how auditors carry out their functions as set out in the *Audit Commission Act 1998*. This requires us to review and report on your:

- financial statements
- arrangements for securing economy, efficiency and effectiveness in the use of resources.

### Financial statements

The financial statements audit is conducted in accordance with International Standards on Auditing (UK & Ireland) (ISAs), *Practice Note 10: audit of public sector bodies in the United Kingdom (Revised)* and guidance issued by the Audit Commission.

### Use of resources

Our review of your arrangements to secure economy, efficiency and effectiveness is based on the following two criteria:

- the organisation has proper arrangements in place for securing financial resilience
- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

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## Whole of Government Accounts (WGA)

Local authorities are required to prepare information to allow HM Treasury to prepare consolidated Whole of Government Accounts based on the statutory financial statements. The WGA return is audited in accordance with Audit Commission specified procedures and requires additional assurance to confirm that counter-party data is properly and accurately recorded.

We provide an assurance report to the National Audit Office to confirm that the WGA return is consistent with the audited financial statements and that it is properly prepared.

## Certification of grant claims and returns

As an agent of the Audit Commission we will undertake a review of grant claims and returns above the audit threshold in accordance with the certification instructions issued by the Audit Commission.

We express a conclusion whether the claim or return: is in accordance with the underlying records (claims and returns above the minimum level and below the threshold); or is fairly stated and in accordance with the relevant terms and conditions (claims and returns over the threshold).

## RESPECTIVE RESPONSIBILITIES

The respective responsibilities of the Council and ourselves are set out in in the *Statement of Responsibilities of Auditors and Audited Bodies (2010)* and *Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns*, both available from the Audit Commission's website.

The Council remains responsible for: the preparation of the financial statements; for exercising its functions economically, efficiently and effectively; the preparation of the Whole of Government Account return; and for preparing accurate grant claims and returns.

We are responsible for forming and expressing an opinion on these in accordance with the requirement of the *Code* and other guidance. Our audit responsibilities do not relieve you of your responsibilities.

## INDEPENDENCE AND OBJECTIVITY

We consider there are no relationships between PKF or other member firms of the PKF International network and yourselves, including councillors, senior management and affiliates, which may reasonably be thought to bear upon our objectivity and independence as auditors.

BDO LLP and PKF (UK) LLP recently announced that we have agreed to merge our businesses and this is expected to be completed in spring 2013. The firm, under the BDO brand, will be a leading accountancy and business advisory firm, with some 3,500 people in the UK generating revenues approaching £400million. The merger creates a financially strong business with significant sector and geographical coverage across the UK.



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PKF has a significant presence in providing audit and assurance services to public sector entities, including local authorities. BDO offers a well regarded advisory and consultancy practice across the public sector. Our clients should see significant benefits arising from this merger in the depth and breadth of the services available.

We have undertaken a review of the procurement consultancy and support provided by BDO LLP to the Council in recent years. We have provided the Deputy Director of Finance with a briefing note of our review of the work undertaken by BDO LLP against the APB's Ethical Standards and the Audit Commission's Standing Guidance and consider that this does not present a threat to our independence and objectivity as auditor.

A copy of PKF's general policies and processes for maintaining objectivity and independence can be provided on request.

#### CO-OPERATION WITH OTHER BODIES

The *Code* requires co-operation between auditors and other regulatory bodies including the National Audit Office to facilitate an efficient audit. In preparing this plan, we have assumed that the Council has provided us permission to discuss issues relevant to the audit with regulators and other auditors.

#### QUALITY OF SERVICE

We are committed to providing a high quality of service to you at all times. If, for any reason or at any time, you would like to discuss how we might improve the service, or if you are in any way dissatisfied, please contact Leigh Lloyd-Thomas 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").

In addition, the Audit Commission's complaints handling procedure is detailed on their website <http://www.audit-commission.gov.uk/about-us/contact-us/complaints/>.

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# 3 Risk assessment

We are committed to targeting work to where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of significant risk relevant to our audit responsibilities and reflecting this in the audit fees.

The determination of significant risks is a matter for auditors' professional judgment. For each of the significant audit risks identified, we consider the arrangements put in place to mitigate the risk and plan our work accordingly. Current and emerging risks that do not impact on our audit are also discussed with management so that we may add value to the risk assessment process and monitor any areas of concern to the Council.

We detail below significant risks impacting on our audit of the financial statements or arrangements for securing economy, efficiency and effectiveness in the use of resources.

If you consider there to be other significant risks, whether due to fraud or error, please let us know.

## FINANCIAL STATEMENTS

We will plan and perform procedures designed to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, thereby enabling us to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. The applicable financial reporting framework is the *CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2012/13*.

We will obtain an understanding of the Council and of the environment in which it operates, including the Council's internal controls and this, together with information obtained from discussions with management, provides a basis for identifying and assessing the risks of material misstatement.

### Fraud risk assessment

The primary responsibility for ensuring that your internal control frameworks are sufficient to prevent and detect fraud and corrupt practices lies with management and "those charged with governance" (the Audit, Best Value and Community Services Scrutiny Committee).

We have discussed the possible risk of material misstatement arising from fraud with the following: Chief Executive, Deputy Director of Finance, Head of Assurance, Chair of Audit, Best Value and Community Services Scrutiny Committee and Chair of the Governance Committee.

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Each has confirmed that they are not aware of any actual or suspected instances of fraud during the financial year, or allegations of fraud that have not yet been investigated, other than:

- an instance of theft and improper use of Council's assets by members of staff.

The amounts involved were not significant and it is expected that additional information will be reported at the next Audit, Best Value and Community Services Scrutiny Committee. Please let us know if there are any other actual, suspected or alleged instances of fraud of which you are aware.

For all fraud risks, and for any actual frauds that have been identified and which we have been informed of, we will consider the possible impact on your financial statements and our audit programme.

### Significant risks

We have identified areas of significant risk that impact on our audit. These, and our proposed work to respond to such risks, are set out below.

#### Management override of controls

ISA (UK&I) 240 *The auditor's responsibilities in relation to fraud in an audit of financial statements* requires us to presume that a risk of management override of controls is present and significant in all entities.

We are required to respond to this risk by testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We will review accounting estimates for evidence of possible bias and obtain an understanding of the business rationale for significant transactions that are outside the normal course of business for the Council or that otherwise appear to be unusual. We are also required to consider the need to perform other additional procedures to respond to the identified risk of management override of controls.

#### Revenue recognition

ISA (UK & Ireland) 240 requires us to presume that there are risks of fraud in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue. As a consequence our audit work will be designed to focus on these areas.

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### **Municipal Mutual Insurance (MMI) scheme of arrangement**

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.

### **Decommissioning landfill sites**

The Council has 19 closed landfill sites that require restoration and after care of sites. These incur approximately £0.5 million decommissioning costs every year, which is funded by the annual revenue budget. The Council does not hold a provision for these future costs as it has instead netted it off the cost of the land, which is carried at £nil.

The current Code Guidance Notes for Practitioners suggests that this is an appropriate method for accounting for such costs. However, we understand that CIPFA is planning to amend the Guidance Notes to include more explicit guidance on the way that local authorities should be accounting for these costs so as to more closely follow the requirements of IAS 16 *Property, Plant and Equipment*.

It is likely that additional guidance will be provided to practitioners that will require restoration and future decommissioning costs to be recognised in the financial statements, and that this may be funded from capital resources.

### **Adult social care costs**

We have previously encountered difficulties in obtaining sufficient supporting evidence to confirm the reasonableness of estimates made by management in accruing for amounts due but not yet invoiced for adult social care expenditure within the financial statements. There are sometimes long delays in receiving invoices for costs incurred by the service and therefore a higher level of management estimation is required in calculating year end creditor accruals.

There is a risk that estimation techniques in this area may not be sufficiently informed by the actual outturn of prior year expenditure against prior year accruals.

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### **Termination costs**

The Council is currently undergoing a restructure, particularly within finance, audit and assurance, human resources, property, procurement and ICT services. Phase 1 of this process is complete and the Council has recently launched phase 2 of the process. There is an expectation that this process may lead to some redundancies and as a result the Council will need to consider the requirement for any accruals for termination payments or provisions for future payments to be accounted for within the financial statements.

There is a risk that these costs may not be correctly and completely accrued or provided for, or adequately disclosed in the notes to the financial statements.

### **Internal control**

As part of our audit we obtain an understanding of the Council's system of internal control sufficient to plan the audit. We assess the adequacy of the design of specific controls that respond to significant risks of material misstatement and evaluate whether those controls have been implemented. Where we intend to place reliance on particular controls for the purposes of our audit, we will carry out procedures to test the operating effectiveness of those controls and use the results of those procedures to determine the nature, timing and extent of further audit procedures to be performed.

### **Internal audit**

It is our intention to use the work of your internal auditors in reaching our audit conclusions. We will be seeking to use work performed on the Council's financial systems.

### **Reliance on management experts**

Where the financial statements include amounts included by management that have been derived from information or estimates provided by experts, we may seek to place reliance on that work in obtaining audit evidence. As part of our work we expect to obtain assurance on the work undertaken by the following experts:

- valuation of land, buildings and dwellings assets and estimated economic useful life provided by qualified valuers
- valuation of pension liabilities and share of the scheme assets provided by your actuary
- valuation of provision for insurance and other claims against the Council and recommendations for amount to set aside in earmarked insurance reserves
- fair value calculations and disclosures for financial instruments carried at amortised costs including investment assets and borrowings.

### **Materiality**

Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. In carrying out our work we will apply an appropriate level of materiality and as such the audit cannot be relied upon to identify all potential or actual misstatements.

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## USE OF RESOURCES

We will plan and perform procedures designed to obtain reasonable assurance about whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources. In meeting this responsibility, we will review and, where appropriate, examine evidence that is relevant to the Council's corporate performance management and financial management arrangements and report on these arrangements.

In doing so, we have regard to the criteria specified by the Commission.

### Significant risks

We have undertaken our value for money risk assessment for 2012/13. This takes into account matters arising from the completion of the 2011/12 audit and additional audit knowledge gained from our regular liaison meetings and planning processes. We have also considered the impact of other regulators' work throughout the year as part of our evaluation of the arrangements to secure economy, efficiency and effectiveness in the use of resources.

We have identified areas of significant risk that impact on our audit. These, and our proposed work to respond to such risks, are set out below.

### 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, as part of our review of financial resilience.

### Public health and Health and Wellbeing Board

Responsibility for public health transfers from the NHS to local authorities on 1 April 2013. At the same time, the Health and Wellbeing Board will assume its full statutory powers, bringing together all areas of local government, the NHS and the people of East Sussex.

The shadow Board considered and agreed a consultation document setting out its proposed priorities for the next three years and the initial development of a Health and Wellbeing Strategy and action plan. The consultation closed in September and the majority of respondents support the proposed priorities. A final strategy for 2013-2016 was recently presented to Cabinet and a Health and Wellbeing Assembly will be held in February 2013 to engage a wide range of partners in discussions around delivering the strategy and action plan over the next three years. A final action plan will be presented to the Board in April 2013 for their consideration and approval.

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We will review work carried out by Internal Audit on public health arrangements, and carry out further enquiries as necessary, to assess whether management has satisfied itself that the Council is adequately prepared for taking on its new public health responsibilities.

We will also liaise with the implementation team to assess progress with the delivery of Health and Wellbeing Board arrangements, how well engagement is taking place with partners and how those relationships are progressing in addressing public health issues and inequalities across the county.

#### **Management restructure**

The Council is currently going through a restructuring exercise to achieve efficiencies through consolidation of support services. The aim is to provide effective strategic planning and resource management and streamlined and consistent systems and processes, which enable a corporate approach to service commissioning and delivery and support the ability of managers to manage resources effectively.

We will review work carried out by Internal Audit in this area, and carry out further enquiries as necessary, to assess management's arrangements for ensuring that the changes to support services have not impacted negatively on financial controls or governance arrangements. We will also review the delivery of associated cost savings.

#### **Other use of resources work**

We will undertake a high level review of the Council's arrangements for reducing back office costs and compare this with the Audit Commission's Back Office services and Shared Services study guides. If there are any areas of concern, we will bring this to the attention of the Council.

We will also review the Audit Commission's Value for Money Profile Tool to identify any areas of concern over costs and performance data and discuss the findings with management.

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# 4 Reporting and communications

## COMMUNICATION

During the course of our work, we will communicate to you relevant matters relating to the audit. We will communicate matters of governance interest that have come to our attention as a result of the performance of the audit. The audit is not designed to identify all matters that may be relevant to you.

Communication may take the form of discussions or, where appropriate, be in writing.

If we identify significant deficiencies in internal control, we will communicate such deficiencies to you, in writing, as soon as is practicable.

Our contact for communications will be the Assistant Director for Strategic Finance and the Audit, Best Value and Community Services Scrutiny Committee. When communicating with this Committee we will consider all individuals representing those charged with governance as informed and our responsibilities for communicating relevant matters will be discharged.

## FINDINGS FROM THE AUDIT

As required by auditing standards and the *Code*, we will communicate the following matters to you, where applicable:

- significant deficiencies in internal control identified during the audit
- significant qualitative aspects of the Council's accounting practices including the application of the applicable financial reporting framework
- significant matters discussed, or subject to correspondence with management or other employees
- uncorrected misstatements (see below)
- material misstatements that have been corrected by management
- other significant matters relevant to the financial reporting process
- material uncertainties relating to going concern
- written representations that we are requesting from you or from other parties
- expected modifications to the opinion or emphasis of matter (or other matter) paragraphs in the auditor's report
- significant difficulties that we have encountered during the course of the audit
- any matters that prevent us from being satisfied that you have put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources
- any matters reported in the public interest
- any recommendations made under section 11(3) of the Audit Commission Act 1998.



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## UNCORRECTED MISSTATEMENTS

We will report to you all uncorrected misstatements that relate to the current financial year (including those arising in previous periods that have an effect on the current year financial statements) and the effect that they have individually, or in aggregate, on the opinion in the auditor's report except for those that are clearly trivial. For reporting purposes, we consider misstatements of less than £260,000 to be trivial, unless the misstatement is indicative of fraud.

We will identify material uncorrected misstatements individually. We will request that any uncorrected misstatements are corrected.

## AUDIT TEAM

The following staff will be involved in the audit throughout the year:

<b>Leigh Lloyd-Thomas</b> – Engagement partner email: leigh.lloyd-thomas@uk.pkf.com Tel: 020 7065 0486	Responsible for delivering the audit in line with the <i>Code</i> , including agreeing the Audit Plan, Governance Report and any other reports. Also responsible for signing opinions and conclusions.
<b>Janine Combrinck</b> – Director email: janine.combrinck@uk.pkf.com Tel: 020 7065 0440	Responsible for overall control of the audit, ensuring timetables are met and reviewing the audit output. Also responsible for liaison with the senior management and the Audit, Best Value and Community Services Scrutiny Committee.
<b>Liana Hine</b> – Assistant Manager email: liana.hine@uk.pkf.com	Responsible for managing the delivery of our audit fieldwork on site.

## TIMETABLE AND OUTPUTS

Area of audit	Fieldwork	Reporting
<b>Financial statements</b>		
Review of internal controls	Mar - Apr 2013	30 Sept 2013
Final audit of the financial statements	July - Aug 2013	
Report on the consistency of the WGA return	Aug - Sept 2013	4 Oct 2013
<b>Use of resources</b>		
Review of the arrangements to secure economy, efficiency and effectiveness in the use of resources	Apr - Aug 2013	30 Sept 2013

Area of audit	Fieldwork	Reporting
<b>Certification of grants and returns</b>		
Audit of grants and returns	Apr - Aug 2013	Departmental deadlines
<b>Reporting</b>		
Report on significant deficiencies in internal controls (if required)		22 May 2013
Governance report to the Audit, Best Value and Community Services Scrutiny Committee		3 Sept 2013
Governance report to the Governance Committee		10 Sept 2013
Annual Audit Letter		Oct 2013
Certification of grants and returns report		Dec 2013

We will agree specific dates for our site visits with officers in advance of each part of our programme, and we will work closely with officers during the year to ensure that all key deadlines are met. We will also meet regularly with senior officers to discuss progress on the audit and obtain an update on relevant issues.

# 5 Fees

## AUDIT COMMISSION SCALE FEES

The proposed *Code* audit fee for the year is £112,479 plus VAT. As noted in our Planning Letter 2012/13, the proposed fee has been increased above the Audit Commission's initial published scale fee by £1,050 to reflect the agreed additional work required for the audit of the collection fund each year. This adjustment has been agreed by the Audit Commission.

The proposed fee for the certification of claims and returns is £6,350 plus VAT, which agrees to the composite scale fee published by the Audit Commission.

The fee for 2012/13 has been reduced compared to 2011/12 to reflect the combined impact of the Audit Commission's outsourcing of its in-house Audit Practice and internal efficiency savings at the Audit Commission.

The fee is analysed by audit area as follows:

Area of audit	2011/12 fee £	2012/13 fee £
Proposed fee	185,715	112,479
Additional work / risks	13,335	-
Total <i>Code</i> fee	199,050	112,479
Certification of grants and returns	14,276	6,350
Total	213,326	118,829

The fees are currently among the lowest for county councils, and taking account of the south east uplift and relative gross spend of the Council, it is the lowest county council relative fee in England. The fee reflects the good cooperation with, and coverage of, the work undertaken by internal audit.

There are limited opportunities to further reduce fees but further improvements could be made through:

- more timely responses to audit queries raised during the audit
- improving the processes for preparing the Whole of Government Accounts consolidation pack and supporting working papers.

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## QUESTIONS AND OBJECTIONS

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

## ASSUMPTIONS

The fees detailed above are based on the following assumptions:

- internal audit will have completed its systems testing in accordance with the plans and agreed timetable, to an adequate standard, and we are able to place full reliance on this work
- there are no significant changes to your main financial systems or internal controls
- you will provide the information requested in our records required listing in accordance with agreed deadlines and that there will be no significant departures from the timetable
- you will ensure that audit reports are responded to promptly and the implementation of recommendations by the due date is actively monitored
- there are no major changes to Audit Commission or National Audit Office instructions or guidance.

The fee assumes efficient co-operation as set out above and is set at the minimum level to carry out the audit.

Subject to prior approval by the Audit Commission, we reserve the right to increase fees should the above assumptions not be met or where we encounter unexpected problems, or issues arise, that cause significant additional work. Time spent dealing with problems or matters arising are usually that of senior people and hence the cost will often, necessarily, be disproportionate to the original fee.

## BILLING ARRANGEMENTS

The *Code* audit fee will be billed as £55,715 in September 2012, £28,645 in December 2012, and £28,119 in March 2013.

Fees for certification of grants and returns will be billed upon completion of each relevant return.

# Appendix A – Risk assessment

Audit risk identified from planning	Area and assertions	Audit response
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## FINANCIAL STATEMENTS

<p>1 <b>Management override</b> ISA (UK&amp;I) 240 requires us to presume that a risk of management override of controls is present and significant in all entities.</p>	<p>Financial statement level risk across all account headings and assertions</p>	<p>We are required to respond to this risk by testing the appropriateness of journal entries and other adjustments made in the preparation of the financial statements.</p> <p>We will review accounting estimates for evidence of possible bias and obtain an understanding of the business rationale of significant transactions that are outside the normal course of business for the Council or that otherwise appear to be unusual.</p>
<p>2 <b>Revenue recognition</b> ISA (UK &amp; Ireland) 240 requires us to presume that there are risks of fraud in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue.</p>	<p>Occurrence, accuracy and completeness of income</p>	<p>We will substantively test an extended sample of revenue items to ensure that accounting policies have been correctly applied in determining the point of recognition of income and that income is completely and accurately recorded.</p>
<p>3 <b>MMI scheme of arrangement</b> Following a recent legal ruling, there is an expectation that MMI will be subject to many more claims and has indicated that the scheme of arrangement may need to be triggered. The Council 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.</p>	<p>Existence, completeness and valuation of provisions</p>	<p>We will review any further information from MMI and consider the requirement for a provision and the value of the provision if required.</p>
<p>4 <b>Decommissioning landfill sites</b> The current Code Guidance Notes for Practitioners suggests that it is appropriate to account for decommissioning of landfill sites as these arise. However, we understand that CIPFA is planning to amend the Guidance Notes to include more explicit guidance on the way that local authorities should be accounting for these costs which will require restoration and future decommissioning costs to be recognised in the financial statements.</p>	<p>Completeness and valuation of provisions</p>	<p>We will review further guidance from CIPFA once available and carry out procedures to ensure that the treatment of decommissioning costs is correctly accounted for within the financial statements.</p>

**5 Adult social care costs**

There are sometimes long delays in receiving invoices for adult social care costs incurred by the Council and therefore a higher level of management estimation is required in calculating year end creditor accruals.

Completeness of expenditure

We will carry out extended testing on the year end accrual in agreeing items back to invoices received post year end. Where invoices have not yet been received, we will review other supporting documentation available to support the existence of the accrual.  
We will also assess the robustness of management's estimation techniques by review of the reasonableness of estimates made in the prior year against actual outturn for the prior year.

**6 Termination costs**

The Council is currently undergoing a restructure. Phase 1 of this process is complete and the Council has recently launched phase 2 of the process. There is an expectation that this process may lead to some redundancies and as a result the Council will need to consider the requirement for any accruals for termination payments or provisions for future payments to be accounted for within the financial statements.

Completeness and valuation of accruals and provisions

Audit procedures will be carried out to establish any in-year redundancies and any agreed and proposed redundancies in future years in order to assess whether terminations have been correctly and completely accrued or provided for, and adequately disclosed.

**USE OF RESOURCES**

**7 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.

Financial resilience

We will review the Council's medium term financial strategy to assess how well it is addressing these pressures, as part of our review of financial resilience.

**8 Public health and Health and Wellbeing Board**

Responsibility for public health transfers from the NHS to local authorities on 1 April 2013. At the same time, the Health and Wellbeing Board will assume its full statutory powers, bringing together all areas of local government, the NHS and the people of East Sussex. A final strategy for 2013-2016 was presented to Cabinet and a Health and Wellbeing Assembly will be held in February 2013 to engage a wide range of partners in discussions around delivering the strategy and action plan. A final action plan will be presented to the Board in April 2013.

Securing economy, efficiency & effectiveness

We will review work carried out by Internal Audit on public health arrangements, and carry out further enquiries as necessary, to assess whether management has satisfied itself that the Council is adequately prepared for taking on its new responsibilities. We will also liaise with the implementation team to assess progress with the delivery of Health and Wellbeing Board arrangements, how well engagement is taking place with partners and how those relationships are progressing in addressing public health issues and inequalities across the county.

**Audit risk identified from planning**

**Area and assertions**

**Audit response**

9

**Management restructure**

The Council is currently going through a restructuring exercise to achieve efficiencies through consolidation of support services. The aim is to provide effective strategic planning and resource management and streamlined and consistent systems and processes, which enable a corporate approach to service commissioning and delivery and support the ability of managers to manage resources effectively.

Financial resilience and securing economy, efficiency & effectiveness

We will review work carried out by Internal Audit in this area, and carry out further enquiries as necessary, to assess management's arrangements for ensuring that the changes to support services have not impacted negatively on financial controls or governance arrangements. We will also review the delivery of associated cost savings.

