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Private & confidential
Russell Stone
Head of Financial Services
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Our ref

4 June 2013

Dear Russell

West Lindsey District Council – Audit progress

We have now completed our planning and interim audit work in line with the timetable set out in our detailed External Audit Plan, dated February 2013. In that plan we indicated that, if necessary, we would issue an Interim Audit Report and present it to the Council's Governance and Audit Committee, to report on the outcome of the planning and control evaluation phases of our audit. This was to ensure that, in line with good practice, any significant matters are reported to those charged with governance in a timely manner.

We have reviewed your control environment and carried out controls testing on significant accounts. We have not identified any matters of significant importance that would warrant a formal interim report. As a consequence, we do not consider it necessary to issue a full report to the Governance and Audit Committee.

We have however, one matter that we wish to raise at this stage, where our work is on-going. It relates to the community asset fund that the Council has created with the Big Red Dot Foundation (BRDF).You raised it with us as one of a number of accounting judgement proposals prior to the preparation of the financial statements.

In May 2012, the Council entered into a three year agreement with the BRDF for it to manage a community asset fund on the Council's behalf. The Council transferred £1.05m during the financial year to be held in trust by BDRF. These types of arrangements are uncommon and your Group Accountant approached us in February 2013 to discuss the accounting treatment in the 2012/13 financial statements.

We have reviewed the contract between the Council and the BRDF and identified a number of ambiguities, in particular what action would be taken should monies not be spent/allocated in line with the financial model and whether any funds remaining at the end of the three years would be returned to the Council. The resultant lack of clarity made assessing the accounting treatment more complex. This is a material sum for West Lindsey DC and in our view the accounting treatment should have been considered prior to entering into the agreement. We would like to discuss the background to the arrangements in more detail with you.

Based on the information available to us at this stage, your proposal for treating the payments as REFCUS expenditure and disclosure of a contingent asset is not unreasonable. As noted above, this type of arrangement is unusual and there is limited specific accounting guidance available currently. Therefore, we may need to revise this assessment should further guidance be received or further information be available.

As discussed with you, we have spent unplanned audit time on this matter. We suggest that at our next ‘catch-up’ meeting we discuss the fee for that additional time, prior to us submitting the details to the Audit Commission. We can also discuss the time needed to deal with the elector queries that we have received and discussed with you. It would also be useful to discuss the progress on the matters that the electors have raised.

There are a small number of matters which we have discussed with you and your team. We will include these for completeness in the ISA260 report, which we will produce at the conclusion of the audit and present to the Audit Committee in September 2013.

In the absence of the need for an Interim Audit Report, please submit this letter to the June meeting of your Governance and Audit Committee, to provide them with an update on the progress of our audit.

Yours sincerely

Tony Crawley
Director