

EXTERNAL AUDIT FEES

1 SUMMARY

- 1.1 This report presents the latest information from the Council's external auditor's, PKF, on the actual fees for 2008/09 (Appendix A) and their proposed fees for 2010/11 (Appendix B). For completeness and comparison, the report also contains a reminder about the planned fees for 2009/10.

2 INTRODUCTION

- 2.1 The Audit Commission now requires external auditors to report the final position on fees compared to the budgeted fee included within the 2008/09 Annual Audit & Inspection Letter.
- 2.2 The audit fee is prescribed by the Audit Commission and is based on a fixed element plus a variable amount based on a percentage of Gross Revenue Expenditure which gives a "scale fee". The Commission can approve a fee that varies either up or down from the scale fee, depending on an assessment of work required by the external auditors.

3 2008/09 FEES

- 3.1 PKF's statement on their actual fees for 2008/09 compared to the budgeted figure is attached as Appendix A. The breakdown of the fees is as follows:-

Audit Area	2008/09 Planned Fee £	Outturn Fee £	Variance £
Planning and Reporting	28,000	27,125	(875)
Financial Statements	58,100	68,005	9,905
Use of Resources/ VFM Conclusion	36,650	39,830	4,055
Sub total	122,750	135,835	13,085
Certification of grant claims and returns	29,000	40,076	11,706
Total	151,750	175,911	24,161

- 3.2 Appendix A includes a detailed explanation for the variances and these are summarised below:-
- 3.3 Planning and Reporting - the £875 underspend was a rebate in relation to the reduced work undertaken for the Use of Resources work for 2007/08, as PKF

did not produce a detailed action plan because of the pending introduction of the new assessment regime.

- 3.4 Financial Statements – as was reported to the Audit Committee in September 2009 and March 2010, there were some issues around capital accounting (primarily the accounting for impairment and depreciation). The additional fee of £9,905 is due to the additional testing and work that PKF had to undertake and also the work and assistance they provided to the Council's finance team to redesign the Fixed Asset Register to prevent a recurrence of the issues.
- 3.5 Use of Resources – The additional fee of £4,055 on the Use of Resources fees was the result of new requirements introduced by the Audit Commission after the fee for 2008/09 had been set. These new requirements in relation to the assessment of data quality, and in particular on the Housing Benefit system, were more labour intensive. PKF presented a report to this Committee in March on the results of this work.
- 3.6 Certification of Claims and Returns – This fee covers the audit of the Housing and Council Tax benefit subsidy claim and Disabled Facilities Grant claim. There was an additional fee of £955 for the audit of the Disabled Facilities Grant which broke the de-minimis level for audit certification. This was due to a late change in rules by the Audit Commission; PKF had not included it in their planned fee. The Audit Commission also introduced new arrangements under which PKF certify grant claims and this added £765 to the fee. The additional £9,658 was due to a number of issues that required additional work on the audit of the Housing and Council Tax Benefit subsidy claim. There was additional testing due to some complex errors and there were additional requirements from the Audit Commission for extended testing and completion of very detailed workbooks.

4 2009/10 AND 2010/11 FEES

- 4.1 The updated planned fees for 2009/10 were reported to this Committee on 16 March 2010 and are included below in order to allow Members to compare the 2010/11 proposed fees.

- 4.2 PKF's statement on the planned fees for audit work in relation to the 2010/11 financial year is at Appendix B and the breakdown of the fees is as follows:-

Audit Area	2009/10 Planned Fee £	2010/11 Planned Fee £	% Change
Planning and Reporting	29,100	29,500	1.4%
Financial Statements	63,335	70,000	10.5%
Use of Resources/ VFM Conclusion	33,900	33,000	(2.7%)
Sub total	126,336	132,500	4.9%
Certification of grant claims & returns	32,000	32,800	2.5%
Total	158,335	165,300	4.4%
Less Audit Commission subsidy for IFRS audit	-	(6,028)	
Total	158,335	159,272	0.6%

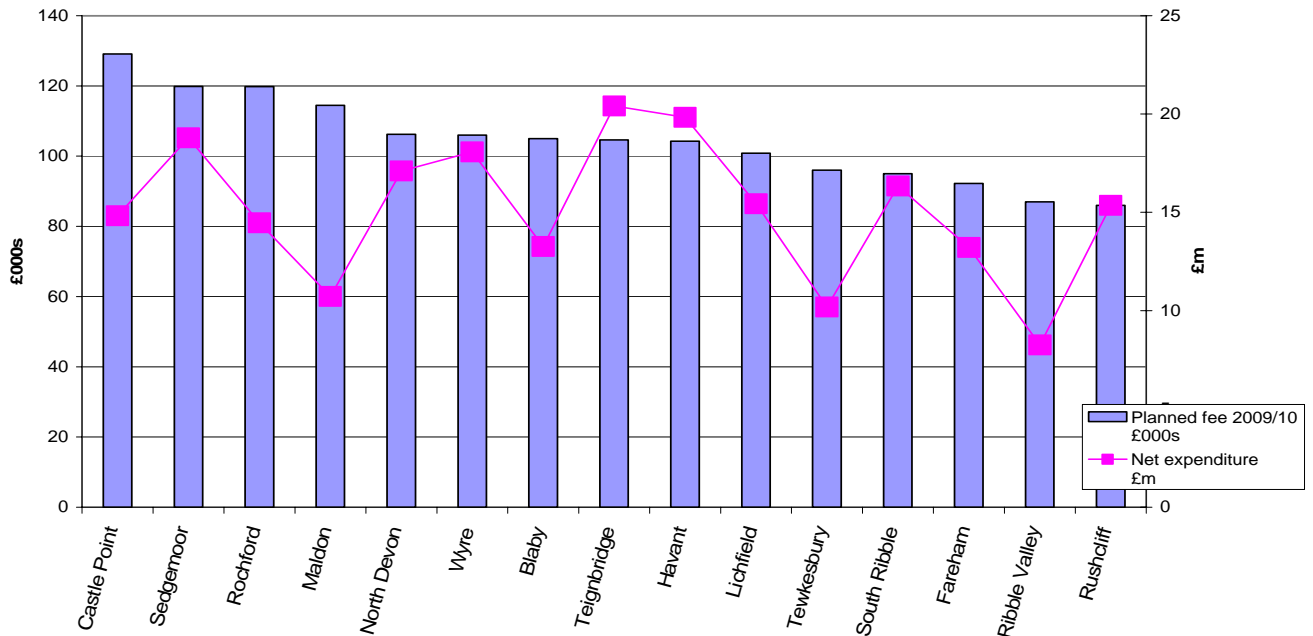
- 4.3 The audit fee for 2010/11 includes a charge for the introduction of International Financial Reporting Standards (IFRS) which will have a considerable impact on the presentation of the Council's accounts for 2010/11. PKF will be required to audit the restated figures for both 2008/09 and 2009/10 accounts. The Audit Commission has agreed to subsidise this increased cost and the Council will receive a rebate of £6,028, which is shown separately in the table above. The element of the planned fee for the Financial Statements will therefore increase from £63,335 to £63,972, an increase of 1%.
- 4.4 Any changes to the planned fees will be agreed with the Head of Finance and will be reported to this Committee following completion of the audit work for 2009/10.
- 4.5 The Government has recently announced the abolition of the Comprehensive Area Assessment (CAA) framework and the Audit Commission has confirmed that work on the Managing Performance theme will stop with immediate effect. The Use of Resources assessment predates the CAA but was brought into the CAA framework as part of an Organisational Assessment and it was broadened to cover issues such as Managing Natural Resources and with more of an emphasis on outcomes to support the CAA. At this stage it is not known what, if any, changes will be made to the Use of Resources regime but the majority of the work by the Council has been completed for 2009/10.

5 BENCHMARKING AUDIT FEES

- 5.1 At its meeting in March, the Audit Committee asked for information on how our audit fees compared with other Authorities.
- 5.2 The Audit Commission has a toolkit to benchmark external audit fees. However, with any benchmarking there are limits to its usefulness and the following should be noted when comparing fees:-
- The Audit Commission uses the planned fee taken from the Audit Fee Letter and as can be seen from the above outturn for our 2008/09 fees, the final fees can differ considerably from the planned fees.
 - Although the Audit Commission identifies a number of criteria in order to select a group of Authorities who are similar in size and nature, the comparison of Net Revenue Expenditure shows considerable differences.
 - The fees for Essex Authorities included an element for Health Inequalities work, which was an additional piece of work that would not have been carried out in the other Authorities.
 - A premium of 3% is added to the fee for Authorities in the South East – this has been deducted from the fees included in the first chart below to enable a more like for like comparison.
- 5.3 The following chart shows the comparison to what the Audit Commission calls our 'nearest neighbours', that is, District Councils that are similar in size and nature, for the planned audit fees for 2009/10. The columns show the planned audit fee and the line shows the Net Revenue Expenditure to demonstrate one of the differences between the Authorities, which could impact on the level of fees. The fees range from £86,000 up to £130,000, and the Net Revenue Expenditure varies from £8.3m to £20.4m.

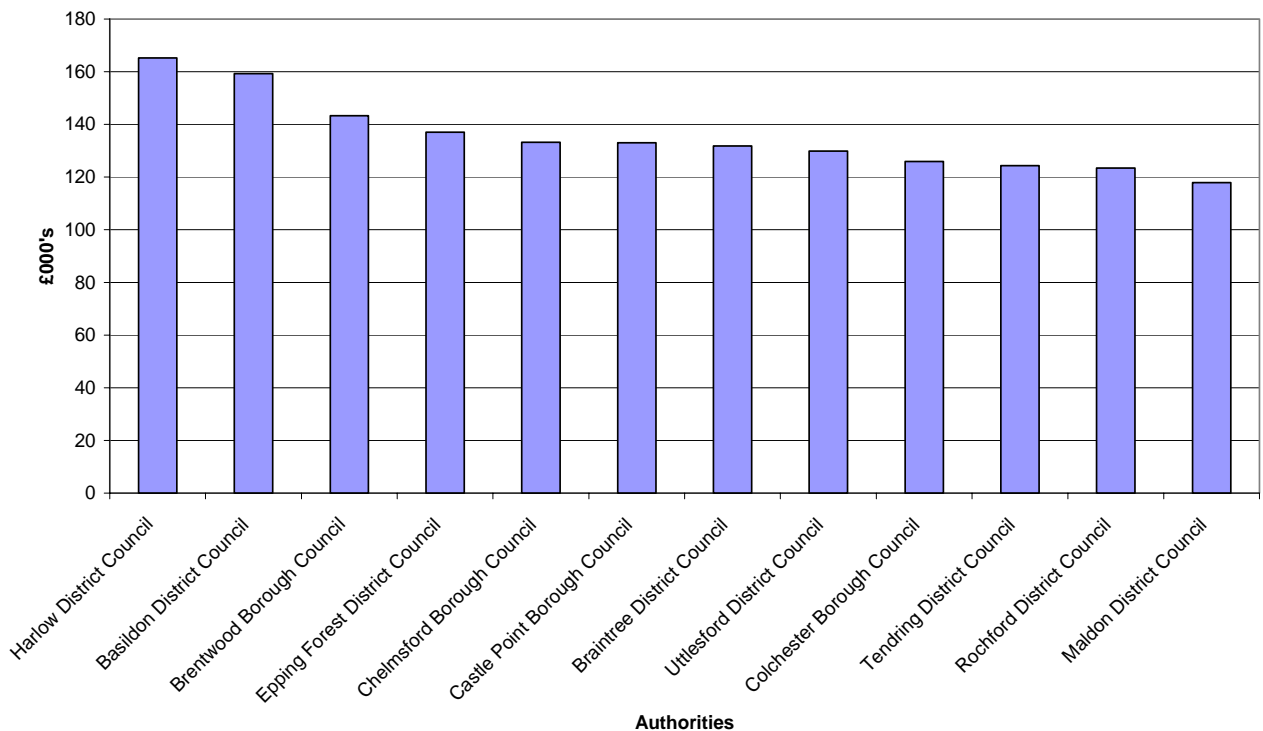
Nearest Neighbours

Planned audit fees 2009/10 against net expenditure



5.4 The following chart shows the comparison to Essex Authorities and the planned fees include the 3% premium mentioned above. Audit fees range from £118,000 up to £165,000.

Planned Fee - 2009/10 Essex District Authorities



6 RISK IMPLICATIONS

- 6.1 In order to avoid fees for the final accounts work this year steps have been taken to address the areas where there were problems last year. The main area was on the fixed asset accounting and the fixed asset register has been redesigned to comply with the new accounting requirements and additional staffing resource has been allocated to the closure of accounts process.
- 6.2 The new Government has already made changes to the inspection regime for Local Authorities with the abolition of CAA. At this stage it is not known what, if any, replacement will be introduced and the impact on audit fees and workloads for officers.

7 RESOURCE IMPLICATIONS

- 7.1 Because of the timing of payments for the 2008/09 audit, most of which are paid in the 2009/10 financial year, the increase in audit fees will mean that there will be an overspend on the external audit fees budget for 2009/10. The total planned fee of £159,272 for 2010/11 represents a 0.6% increase over the planned fee for 2009/10 and is in line with the budget included in the 2010/11 estimates.

8 RECOMMENDATION

- 8.1 It is proposed that the Committee **RESOLVES** that the external auditor's reports on audit fees for 2008/09 and 2010/11 be noted.

Yvonne Woodward

Head of Finance

Background Papers:-

None.

For further information please contact Yvonne Woodward on:-

Tel:- 01702 318029

Email:- Yvonne.woodward@rochford.gov.uk

If you would like this report in large print, Braille or another language please contact 01702 546366.



Accountants &
business advisers

Rochford District Council

Fee outturn summary 2008/09

March 2010

Fee outturn

The Audit Commission's *Standing Guidance for Auditors* requires us to report the outturn fee position for the year against the budgeted fee included within your 2008/09 Annual Audit and Inspection Plan. The fee was also included in our 2009/10 Fee Letter which was presented to Audit and Governance Committee in June 2009, prior to the conclusion of the audit.

Since reporting this information, we have concluded the audit and agreed with officers further additional fees in respect of the accounts audit. The updated, final outturn fee for 2008/09 is set out in the table below. The accounts and grants work relates to the accounts and grants for the year ended 31 March 2009. The Use of Resources assessment work relates to the year ended 31 March 2008.

Audit area	Planned Fee £	Outturn Fee £	Variance £
Planning and Reporting	28,000	27,125	(875)
Financial Statements, including WGA	58,100	68,005	9,905
Use of Resources/VFM Conclusion [including risk based work]	36,650	39,830	4,055
Total Code audit fee	122,750	135,835	13,085
Work outside of our audit Plan	£	£	£
Certification of claims and returns	29,000	40,706	11,706

The £875 rebate of fee shown above was due to a reduced scope of use of resources reporting for the 2007/08 assessment (the fee for which is included in the 2008/09 Audit Plan and planned fee). This report, as was agreed with the Council, did not include a detailed action plan because of the impending change of assessment regime (2007/08 having been the last of the process-focused assessments).

The additional £9,905 fees in respect of the accounts audit were as a result of additional substantive audit procedures being required to satisfy ourselves of the accuracy of the Council's fixed asset valuation and capital accounting, the details of which were reported to you in our Annual Governance Report, which was presented to the Audit Committee in September 2009. This included extended substantive testing of depreciation and impairment. The work undertaken, which included close working on establishing solutions with officers, should prevent a recurrence of issues arising in this area.

The £4,055 variance on use of resources fees was as a result of the introduction of the new regime for assessing data quality, including the "HBCOUNT" methodology. The full scope of this more labour-intensive audit methodology was not known at the time of setting the planned fee, and our planned fee was caveated accordingly.

The variance on the outturn fee for certification of claims and returns included in the table above is primarily the result of:

- £9,658 additional fees to cover the increased scope of work required to respond to, and clear, the complexity of issues and errors arising from the audit of the Housing and Council Tax Benefit Subsidy Claim. Extended substantive testing of excess benefits and modified schemes was required, to comply with the grant-paying body's agreed certification methodology. Significantly, the Audit Commission mandated from this year that all extended testing needed to be recorded in considerable detail in their "workbooks", which is very time-consuming.
- Fees of £955 charged for the audit of the Disabled Facilities Grant Claim, which broke the de-minimis level for audit certification this year due to a change in rules. This had not been anticipated and had not, therefore, been included in the planned fee.
- A fee of £765 for increased scope reporting that has recently been mandated by the Audit Commission as "section 28" work (the arrangements under which we certify grant claims and returns as an agent of the Audit Commission) and is not included in the planned fee. This will be billed in March now that the work has been completed.

Mr Paul Warren
Chief Executive
Rochford District Council
Council Offices
South Street
Rochford
Essex
SS4 1BW

Our ref: 1012597/2010-11/RSB/LJC

26 April 2010

Dear Paul

Annual Audit Fee 2010/11

Further to our discussions, we are writing to confirm the audit work that we propose to undertake for the 2010/11 financial year at Rochford District Council. The fee is based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2010/11. The fees for inspection and assessment are reported separately and excluded from the audit fee.

As we have not yet completed our audit for 2009/10, the audit planning process for 2010/11, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary. The total indicative fee for the audit for 2010/11 is £132,500 which compares to the planned fee of £126,335 for 2009/10 and the actual fee of £122,750 for 2008/09. A summary of the fee is shown in the table below.

Tel 020 7065 0000 | Fax 020 7065 0650

Email richard.bint@uk.pkf.com | www.pkf.co.uk

PKF (UK) LLP | Farringdon Place | 20 Farringdon Road | London | EC1M 3AP | DX 479 London/Chancery Lane

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Audit area	Planned fee 2010/11	Planned fee 2009/10	Actual fee 2008/09
Financial statements, including WGA	70,000	63,335	58,100
Use of Resources/VFM Conclusion [including risk based work]	33,000	33,900	36,650
Planning / Reporting	29,500	29,100	28,000
Total Code audit fee	132,500	126,335	122,750
Certification of claims and returns*	32,800	32,000	35,632

* Planned fees for 2010/11 and 2009/10 relate to the certification of grant claims and returns for the years ended 31 March 2011 and 31 March 2010 respectively. The certification fees for 2008/09 are the actual fees for the year ended 31 March 2009.

Your audit fee will be billed as follows:

Month	£
June 2010	32,000
September 2010	32,000
December 2010	10,500
March 2011	21,000
June 2011	5,500
September 2011	31,500
Total	132,500

The audit fee for 2010/11 includes a charge for the introduction of International Financial Reporting Standards (IFRS). The transition will result in an increased level of work for auditors, particularly in the first year when both the outturn figures and the restated comparatives will need to be audited. However, in recognition of the financial pressures that public bodies are facing in the current economic climate, the Audit Commission will subsidise the Council for this increased cost by refunding 6% of the scale fee which amounts to £6,026.

With the exception of the introduction of IFRS, in setting the fee at this level, we have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10. Given we have not yet completed our Use of Resources assessments for 2009/10 we have also assumed that the resource input for Use of Resources assessments will be at the same level as for 2008/09, although we are aware the Audit Commission are consulting on proposed changes to the regime and the impact of any changes will be assessed when the review has been concluded.

The guidance relating to data quality spot check work has been revised for the next assessment. Our 2008/09 audit of indicators identified some issues with one of the two indicators but we do not consider these significant enough to raise the general risk profile for data quality therefore the number of indicators being reviewed will remain at 2, which is reflected in the fee calculation. The benefits work that feeds into the assessment of Key Line of Enquiry 2.2 will now be based on management arrangements in place during 2009/10 for benefits data quality and the outcome of our certification work on the 2008/09 housing and council tax benefit subsidy grant claim. Links to wider certification work have also been added to the guidance to raise the profile of certification work.

A separate plan for the audit of the financial statements will be issued in December 2010. This will detail the significant risks identified, planned audit procedures to respond to those risks and any changes in fee. If we need to make any significant amendments to the audit fee during the course of the audit, we will first discuss this with the Head of Finance, Audit and Performance Management, and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

We will issue a number of reports relating to our work over the course of the audit. These are listed in the appendix to this letter.

Use of resources

Our use of resources assessments will be based upon the evidence from three themes:

- Managing finances
- Governing the business
- Managing resources.

The key lines of enquiry specified for the assessment are set out in the Audit Commission's work programme and scales of fees 2010/11. Our work on use of resources informs our 2009/10 value for money conclusion and our initial assessment did not identify any indicative key risks in relation to value for money audit work.

However, our updated risk assessment identified the following factors that, whilst not significant risks, merit audit emphasis. We intend to maintain ongoing review of these areas during the course of the year as changes in circumstances may arise. Accordingly we feel it appropriate to bring it to your attention at this stage:

- Although the current economic climate continues to cause financial pressures for all authorities, the Council is effectively managing finances during the course of the downturn. However, due to continuing uncertainty over the level of government funding to be available to the Council for 2010/11 which would have a major impact on the Council. The Council's financial position will be regularly monitored during the course of our planning and audit work undertaken, and we will assess the developments of the Council's plans towards delivering efficiencies.

- The Council are introducing a new performance management software system which will be tested in 2009/10 running parallel to existing control arrangements in place. We will review transitional arrangements in place at the Council and monitor their progress to introduce the new system to reconsider the significance of this issue as part of our updated risk assessment later in the year.
- The Council's succession plans include a restructure of the senior management team which represents a significant change to the current organisation structure. We will continue to monitor the developments of the re-organisation plans and the impact it may have on the Council.
- The findings from the Audit Commission's November 2009 survey on the preparedness of local authorities for IFRS implementation found that only one in seven authorities were "on track" and one in five is having serious difficulties. We assessed the Council as being in the very early stages of preparation and planning for transition to IFRS at that time. There could be use of resources assessment implications for the Council if the implementation process is not managed effectively.
- Safeguarding Children was raised as a red flag for Essex in the CAA last year. Our focus is on the Council's involvement in restructuring in Essex, as this applies to our Code responsibilities, in particular the Council's risk management, partnership and governance arrangements with respect to its role in safeguarding. We will develop, discuss and agree the scope and specification for any detailed work considered necessary to understand and assess the Council's arrangements before any field work is commenced.

Accounts

Although we would not ordinarily recognise accounts risks at this stage, the significance of the transition to International Financial Reporting Standards is considered to be a significant accounts risk for 2010/11. Accordingly we feel it appropriate to bring this to your attention at this stage:

Indicative significant risk	Planned work	Timing of work
<p>International Financial Reporting Standards (IFRS) will be adopted in local government from 2010/11 and will also require restatement of prior year comparative figures. There is a risk around transitional arrangements and preparation of the accounts in compliance with IFRS.</p>	<p>We will monitor the Council's progress against implementation of their IFRS plan and management's transition arrangements.</p> <p>Additional detailed audit procedures will also be required in the restatement exercise of comparative balances for year ended 31 March 2009 and 31 March 2010.</p>	<p>April 2010 – March 2011</p>

Comprehensive area assessment (CAA) fees

The CAA framework includes organisational assessments for councils which combine the use of resources themes and a managing performance theme. The total indicative fee for inspection for 2010/11 is £9,152. The inspection fee has been set in accordance with the Audit Commission's work programme and scales of fees 2010/11 and comprises the managing performance theme of organisational assessment.

Your audit team

The key members of the audit team for the 2010/11 are:

- Engagement lead Richard Bint 020 7065 0497
- Audit Manager Lisa Clampin 01473 320716
- Audit Senior Christopher Donovan 01473 320795

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").

Yours sincerely



Richard Bint
Partner
PKF (UK) LLP

cc Yvonne Woodward - Head of Finance, Audit and Performance Management

cc Cllr Mrs J A Mockford - Chair of the Audit Committee

Appendix: Planned Outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Planned output	Indicative date
Use of resources assessment report (2009/10 assessment)	October 2010
2010/11 Detailed audit plan	December 2010
2010/11 Annual Governance Report	September 2011
2010/11 Annual audit letter	November 2011
Report on certification of grants claims for the year ended 31 March 2011	February 2012