
ANNUAL AUDIT FEE: 2009/10

1 SUMMARY

- 1.1 The purpose of this report is to present the proposed fees for the 2009/10 external audit and inspection work. The letters from our external auditors, PKF, and the Audit Commission setting out their proposed fees and planned work are attached as appendices.

2 INTRODUCTION

- 2.1 In previous years the Council has received an Outline Audit and Inspection Plan which covered the work of both the external auditors and the Audit Commission. In a change to these arrangements we now receive the information in two separate documents.
- 2.2 Appendix 1 covers the planned work by PKF and their fees. These fees relate to the work on the audit of the financial year 2009/10 so the majority of the work will take place in 2010. The fees and planned work will be reviewed by PKF in light of their audit of the 2008/09 accounts which will take place in August 2009 and be reported to this Committee in September. Their letter also sets out the reports which will be received by the Council.
- 2.3 Appendix 2 sets out the assessment and inspection work that the Audit Commission will undertake. For 2009/10 this will be the area assessment of local partnerships and the Managing Performance theme of the organisational assessment.

3 RISK IMPLICATIONS

- 3.1 PKF use a risk based approach to determine the amount of work they will need to carry out. The risks identified for 2009/10 and updated for 2008/09 are detailed in appendix 1 and have been discussed and agreed with officers.

4 RESOURCE IMPLICATIONS

- 4.1 The combined planned fee for 2009/10 is £161,552, a reduction of 2% compared to £164,951 for 2008/09. A summary of the fees is shown below:-

Work Area	2008/09 £	2009/10 £
PKF		
Financial Statements	58,100	60,400
Use of Resources/Value For Money	36,650	33,900
Planning and Reporting	28,000	29,100
Certification of grant claims	35,632	29,000
Sub Total Audit	158,385	152,400
Audit Commission		
Inspection & assessment	6,569	9,152
Total Audit & Inspection	164,951	161,552

5 RECOMMENDATION

- 5.1 It is proposed that the Committee **RESOLVES** that the external auditors and Audit Commission's planned audit and inspection work and their proposed fees for 2009/10 be noted.

Yvonne Woodward

Head of Finance, Audit & Performance Management

Background Papers:-

None.

For further information please contact Yvonne Woodward on:-

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



Accountants &
business advisers

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

Our ref: 1012597/0910/DE/LJC

24 April 2009

Dear Paul,

Annual Audit Fee 2009/10

We are writing to confirm the audit work that we propose to undertake for the 2009/10 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 2009/10
- reflects only the audit element of our work, and specifically excludes any inspection and assessment fees. Your Comprehensive Area Assessment Lead will be writing to you separately on these fees on behalf of the other inspectorates.

As we have not yet completed our audit for 2008/09, the audit planning process for 2009/10, 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 2009/10 is £123,400 which compares to the planned fee of £122,750 for 2008/09 and the actual fee of £124,900 for 2007/08. A summary of this is shown in the table below:

Audit fee

Audit area	Planned fee 2009/10	Planned fee 2008/09	Actual fee 2007/08
Financial statements, including WGA	60,400	58,100	57,900
Use of Resources/VFM Conclusion [including risk based work]	33,900	36,650	39,800
Planning and reporting	29,100	28,000	27,200
Total Code audit fee	£123,400	£122,750	£124,900
Certification of claims and returns	29,000	35,632	36,202

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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 2008/09.

We have rebased our resource input for the new Use of Resources assessments to provide our best estimate of the time required to complete the assessment using the new methodology. In doing so we have assumed that we will be able to utilise knowledge already gained through the CPA re-categorisation process completed during 2008 and that the Council will provide a comprehensive self assessment, as discussed, to achieve economies. However, as the assessment framework is new, the methodology untested and the mandated deadline for issue of this Letter means we are at a very early stage of this work, we will liaise with you on our progress and discuss any issues with a possible fee impact with the Head of Finance, Audit and Performance Management should they arise.

The new Use of Resources framework includes a revised approach to Data Quality, which includes an *increased* amount of spot check work and some further mandated spot check work on housing benefits. The estimated fee reflects this increased level of work as set out in the Audit Commission's Technical Guidance – on current knowledge we have assumed that a Low risk assessment is appropriate, mandating spot checks of 2 indicators in addition to the two mandated benefits indicators.

A separate Audit Plan will be issued in December 2009. This will detail the significant accounts risks identified in relation to the audit of the financial statements, planned audit procedures 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.

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 2009/10. Our work on use of resources informs our 2008/09 value for money conclusion. Our risk assessment seeks to identify significant risks in relation to our value for money conclusion and, for each risk, consider the arrangements put in place by the Council to mitigate the risk, and plan our work accordingly. Our initial risk assessment for value for money audit work is shown in the table below:

Risk	Planned work	Timing of work
<p>The Local Government Act 2000 placed a duty on local authorities to promote the social, economic and environmental well being of their area.</p> <p>Government has identified that tackling health inequalities is one of six key priorities, and expressed concern that the PSA target 'by 2010 to reduce inequalities in health outcomes by 10 per cent' is likely to be missed.</p> <p>Partnership working focusing on the health inequalities agenda may be ineffective, under-developed or not yet operational. The 2007/08 pan Essex review identified that further work was required in order to achieve the health inequalities agenda.</p> <p><i>This risk continues from the 2007/08 and 2008/09 audit plans.</i></p>	<p>Assess progress made since the initial report, focussing on outcomes achieved reflecting the new use of resources approach.</p>	<p>January 2010 – April 2010.</p>

In addition to the significant risk identified above, our risk assessment also identified the following risk factors that, whilst not significant, merit audit emphasis. Accordingly we feel it appropriate to bring these to your attention at this stage:

- Due to the new Use of Resources arrangements being a 'harder test', the Council's Performance Management arrangements may not be developed sufficiently since the Performance Management report was issued in July 2008 to maintain the Council's Use of Resources score in this area
- IFRS will be fully implemented in 2010/11. The Council will need to consider this in 2009/10 as there will be a requirement to restate these figures as they will be comparatives in 2010/11.

The scope of the IFRS restatement work has not yet been determined, but we are working on the assumption that the work will be mandated and the fee will be billed under section 28 powers, as has been the case in the NHS in 2009.

During our initial risk assessment we also identified the following accounts risk:

Risk	Planned work
The Council are planning to implement a new cash receipting system during the year, which increases the risk of a lapse in the controls in place over the recording of income.	We will review the work of Internal Audit on the controls within the new system and reconsider the significance of this risk as part of our updated risk assessment later in the year. Our revised response will be included in the updated Audit Plan to be issued in December 2009.

We will issue a number of reports relating to our work over the course of the audit. These are listed at Appendix 1.

The above fee excludes improvement work we may agree to undertake using section 35 powers. Each piece of work would be separately negotiated and a detailed project specification agreed with you.

The key members of the audit team for 2009/10 are:

- Partner David Eagles¹ 01473 320728
- Audit Manager Lisa Clampin 01473 320716
- Audit Senior Chris Donovan 01473 320795

Updated Audit Risk Assessment 2008/09

We have updated our audit risk assessment for 2008/09 to take into account:

- matters arising from the completion of the audit of your 2007/08 Accounts
- additional audit knowledge gained since our initial risk assessment which was included in our Annual Audit and Inspection Letter 2008/09, presented to the Audit Committee in June 2008.

¹ Due to rotate from 30 November 2009.

The table below sets out additional significant audit risks identified during our updated risk assessment:

Risk	Planned work
International Standards on Auditing (UK and Ireland) presumes that there is a non rebuttable risk of management override of controls is present in all entities and requires us to respond to this risk.	We will test the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual. We are also required to consider the need to perform other additional procedures.
There is an increased risk of material error occurring in the draft financial statements as a result of timetabling pressures arising from the statements being prepared earlier than previously to align with the Financial Services Manager's planned maternity leave.	We will monitor progress against the closedown time table to ensure it is being followed and the appropriate independent senior staff checks to identify errors are being carried out.
There is a risk that the VAT shelter receipts in respect of transferred housing stock may not be accounted for in the accounts in accordance with the clarified guidance received from the Audit Commission on the treatment of these receipts.	If this is material, we will review the receipts received and undertake substantive testing on a sample of these to ensure they have been accounted for correctly in accordance with the guidance.

To address these risks we have discussed and agreed with officers additional work scope and our estimates for resource input which, at this stage, we consider will have no impact on the 2008/09 planned fees. We will continue to monitor the position and discuss developments with officers.

In addition to the significant risks identified above, our updated risk assessment also identified the following risk factor that, whilst not significant, merits audit emphasis. Accordingly we feel it appropriate to bring it to your attention at this stage:

- valuation of fixed assets in light of the current economic climate

We have set a triviality level of £16,500 for the 2008/09 accounts audit and will not report to you any matters arising below this level.

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 David Eagles 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



David Eagles
Partner
PKF (UK) LLP

cc Head of Finance, Audit and Performance Management

Appendix: Planned Outputs 2009/10

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

Planned output	Indicative date
Audit plan	December 2009
Annual governance report, giving the opinion on the financial statements and value for money conclusion	September 2010
Use of resources report	November 2009
Annual audit letter	November 2010

2 April 2009

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Email i-davidson@audit-
 commission.gov.uk

Dear Paul

Annual inspection fee 2009/10

I am writing to set out the assessment and inspection work that we propose to undertake for the 2009/10 financial year at Rochford District Council. The inspection fee:

- is based on the risk-based approach to inspection planning as set out in the Comprehensive Area Assessment (CAA) framework and associated guidance; and
- reflects only the Audit Commission's inspection work, excluding any audit fees. Your appointed auditor will be writing to you separately on fees for audit work.

CAA will deliver a more proportionate and risk based approach to inspection, targeting only high risk services and outcomes for inspection where alternative improvement activity is not appropriate. The inspection plan will be reviewed and updated as necessary.

The total indicative fee for inspection for 2009/10 is £9,152 and is shown in the table below. The inspection fee has been set in accordance with the Audit Commission's work programme and scales of fees 2009/10.

Assessment and inspection work plan and fee

Assessment / inspection activity	Planned fee for 2009/10
Area assessment of local partnership	n/a (CLG grant funded)
Managing performance theme of organisational assessment	9,152
Total inspection fee	9,152

Audit Commission, Chelmsford Atlantic Business Park, Lyttleton House, 64 Broomfield Road, Chelmsford, Essex, CM1 1SW
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If I need to make any significant amendments to the inspection plan and fee during the course of the year, I will first discuss this with you and then confirm in writing outlining the reasons for the change, including the proposed scope for the work.

The above fee excludes any work you requested and the Commission has agreed to undertake using its advice and assistance powers.

If you have any questions regarding this letter, please contact me in the first instance.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Ian Davidson', with a horizontal line underneath.

Ian Davidson
Comprehensive Area Assessment Lead

cc Director of Finance