

BABERGH DISTRICT COUNCIL

FROM: Director of Finance

REPORT NUMBER: **J41**

TO: OVERVIEW & SCRUTINY
(STEWARDSHIP) COMMITTEE

DATE OF MEETING: 23 June 2009

EXTERNAL AUDIT FEE 2009/10

1. PURPOSE OF REPORT

1.1 To consider the External Auditors proposed Audit Fee for 2009/10.

2. RECOMMENDATIONS

2.1 That the Committee considers the proposed Audit Fee for 2009/10, attached as an Appendix to this report, and whether this is acceptable.

2.2 In the event of Members not agreeing that the fee is acceptable, the Director of Finance, in consultation with Chairman of this Committee, be authorised to agree a final fee.

The Committee is able to resolve these matters.

3. FINANCIAL IMPLICATIONS

3.1 If Members accept the fee, the increased cost can be met from existing budgets.

4. RISK MANAGEMENT

4.1 The risks associated with this report link to the Council's Significant Business Risk No. 7 – Financial, Performance & Risk management.
The key risks are:

Risk Description	Likelihood	Seriousness or Impact	Mitigation Measures
Members do not accept the proposed fee	Significant	Marginal	The External Auditor will explain what options are available to the Council.

5. **KEY INFORMATION**

- 5.1 Attached is the Audit Fee letter for 2009/10. Representatives from PKF, the External Auditors, will present this and explain the reasons behind the fee increases.
- 5.2 Members may wish to question the auditor in relation to the following points. The Chairman has already written to PKF on these:
- It is very disappointing to see any increase in audit fees given that inflation is currently zero
 - Including the increase in grant claim costs, the increase is around 10% compared to the 2008/09 original fee indications
 - It would have been hoped that any increase in one area of activity could be offset by a reduction in another
 - Our current fee (2008/09) of £106,630 is nearly 10% above the average of some of our contemporaries - Mid Suffolk; St Eds; Suffolk Coastal (and a massive 45% more than Forest Heath). An explanation of this and some suggestions as to how we can get down to their levels would be useful.
- 5.3 Should Members not accept the fee, Members may wish to indicate to officers, taking into account views and comments from the Auditors, how agreement on this should be reached e.g. to the Director of Finance in consultation with the Chairman of the Committee. Members would need to set some parameters for this.

6. **APPENDICES**

1 - Audit Fee Letter 2009/10.

7. **BACKGROUND PAPERS REFERRED TO**

None.

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Director of Finance

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Mr B Hunter
Director of Finance
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Our ref: 4008709/2009-10/RB/ZT

23 April 2009

Dear Barry

Annual Audit Fee 2009/10

Further to our discussions, we are writing to confirm the audit work that we propose to undertake for the 2009/10 financial year at Babergh 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 £110,300 which compares to the planned fee of £106,630 for 2008/09. A summary of this is shown in the table below.

Audit fee

Audit area	Planned fee 2009/10	Revised planned fee 2008/09	Original planned fee 2008/09
Financial statements, including WGA	63,025	61,950	61,950
Use of Resources/VFM Conclusion [including risk based work]	36,075	33,600	33,600
Planning & reporting	11,200	11,080	11,080
Total Code audit fee	110,300	106,630	106,630
Certification of claims and returns	35,000	35,000*	28,080

**This estimate has been updated from the 2008/09 Annual Audit and Inspection Plan issued based on experience during the audit of 31 March 2008 grant claims. This work is billed on an hours worked basis at Audit Commission grade rates.*

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The Audit Commission has published its work programme and scales of fees 2009/10. The scale fee for Babergh District Council is £106,249. The fee proposed for 2009/10 is 3.8 per cent above the scale fee.

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 also assumed that the resource input for Use of Resources assessments will be at a similar level as for 2007/08. Our data quality assessments reflect the increased level of work set out in the Audit Commission's Technical Guidance relating to the level of spot check work mandated for audited bodies – here a high risk assessment suggesting between 4 and 5 indicators in addition to the mandated benefits work.

A separate plan for the audit of the financial statements will be issued in December 2009. This will detail the significant risks identified, 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 Director of Finance and then prepare a report outlining the reasons why the fee needs to change for discussion with the Overview and Scrutiny (Stewardship) 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. However, we have identified a number of significant risks in relation to our value for money conclusion. For each risk, we 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>All data quality indicators selected for spot checking in 2007/08 were found to be 'unfairly stated'. The Council also has no formal data quality policy in place and arrangements were considered adequate in the last assessment. With the bar being raised and data quality becoming an integral part of the new Use of Resources assessment, there is a risk that the Council may fail to achieve the required level of performance.</p> <p><i>A Data Quality Policy has subsequently been approved by the Council in April 2009.</i></p>	<p>We will undertake an increased sample of indicator spot checks to inform our findings on KLoE 2.2 and follow up on our data quality report during the Use of Resources assessment.</p>	<p>April 2009 - September 2009</p>

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.

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

- The decision on Local Government Reorganisation has been deferred until July 2009. Therefore any organisational structure changes are unlikely to take place until 2011, we intend to monitor the situation through our regular liaison;
- 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 key members of the audit team for the 2009/10 are:

- Audit Manager Zoe Thompson 01473 320734
- Supervisor Clare Beesley 01473 320781

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 Overview and Scrutiny (Stewardship) in June 2008.

We have not identified any additional significant audit risks identified during our updated risk assessment, however the following risk factors that whilst not significant, merit audit emphasis. Accordingly we feel it appropriate to bring them to your attention at this stage:

- the current economic climate has led to the need for greater emphasis and audit assurance work on certain material balances. We will be reviewing in detail the Council's impairment review of its tangible fixed assets and will be scrutinising and challenging the methodology supporting the Council's bad debt provision to ensure these are adequate whilst also considering the level of write-offs during the year.
- in the prior year, we identified a number of cut-off errors within our debtors testing. Whilst we are not proposing to change our approach to auditing this balance, we will be undertaking increased sample testing in order to gain the necessary assurance over the balance which will have an impact on the audit resource input.
- concessionary fares is a material line of expenditure for the Council and given the demographics of the District it is potentially a volatile budget. We intend to obtain third party assurances where available to ensure that all costs have been included within the Statement of Accounts.
- We have yet to review Internal Audit's work on the key financial systems but note from their most recent Progress Report that there have been some weaknesses in controls and some "unacceptable" audit opinions issued. As a result we may have to undertake additional work at the final accounts stage in order to gain the required level of assurance to support our Audit Opinion which may require additional fees to be charged. We will update the Committee in our report to those charged with governance in September.

We have set a triviality level of £23,500 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 myself 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

A handwritten signature in black ink, appearing to read 'R. Bint', with a stylized flourish at the end.

Richard Bint
Partner
PKF (UK) LLP

cc Chair of the Overview and Scrutiny (Stewardship) Committee

Appendix: Planned Outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Overview and Scrutiny (Stewardship) Committee.

Planned output	Indicative date
Audit plan	December 2009
Report to those charged with governance, giving the opinion on the financial statements and value for money conclusion	September 2010
Use of resources report (which supports the 2008/09 VfM conclusion)	October 2009
Annual audit letter	November 2010