

## **AUDIT COMMITTEE**

**24 MARCH 2009**

### **EXTERNAL AUDIT FEE LETTER**

Report from: Financial Management

Author: Mick Hayward, Chief Finance

#### **Summary**

This report and attachment present the external Audit Fee letter for 2009/10. The Council's external auditor (PKF) have produced the letter and it is presented to this committee in line with Audit Commission requirements.

#### **1. Budget and Policy Framework**

1.1 Following the Council's decision to establish this committee, it is within the remit of the committee to take decisions regarding accounts and audit issues.

**1.2 *This item is presented as a matter of urgency because the Audit Commission has requested that all audit fee letters be agreed by 30 April 2009.***

#### **2. Background**

2.1 In previous years the external audit fee has been addressed as part of the Annual Audit and Inspection Plan, normally presented to this committee in the June cycle.

2.2 New guidance from the Audit Commission requires that for 2009/2010:

- Separate fee letters be issued for audit and inspection activity;
- Only a brief fee planning letter be issued at the start of the year; and
- Detailed opinion risks be identified at a later date and presented in a more comprehensive audit plan

#### **3. Content**

3.1 The fee planning letter attached explains that the proposed fee of £329,000 takes account of the current assessment of risk but may need to be updated throughout the year as work continues. Work stemming from elector questions will be charged separately.

#### **4. Financial and legal implications**

- 4.1 The initial fee is within the budget allocation for 2009/10 but the new system does allow for additional fees to be negotiated dependant on future opinion of risk and these will be reported separately should they arise. There are no direct legal implications.

#### **5. Recommendations**

- 5.1 Members are asked to approve the audit fee letter as presented.

#### **Lead officer contact**

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#### **Background papers**

None



Accountants &  
business advisers

**Medway Council**

**Audit fee letter 2009/10**

March 2009

## Introduction

- 1.1 This fee letter provides details about the work we propose to undertake and the indicative fee for our audit of the Council in 2009/10. 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
  - includes only audit work to be undertaken by PKF (UK) LLP and excludes any inspection and assessment work undertaken by other regulators.
- 1.2 As we have not yet completed our audit for the 2008/09 year, the audit planning process for 2009/10, including the risk assessment will continue as the year progresses. Our fees will be reviewed and updated as necessary.
- 1.3 The Audit Commission's scale of fees for the 2009/10 financial year highlights the fees payable by Unitary Authorities such as Medway. Using the Commission's fee calculator, a Council with Medway's expenditure plans and risk profile should expect a fee of £343,000.
- 1.4 The fee we are proposing amounts to **£329,000** which compares to the (planned) fee of £317,000 for 2008/09. The proposed fee is:
- £12,000 more than the 2008/09 level (an increase of 3.8 per cent)
  - £26,000 (7.6 per cent) below the scale fee. In 2008/09, the planned fee is four per cent below the scale fee.
- 1.5 In setting the fee at this level, we have assumed the general level of risk in relation to the audit of the financial statements is not significantly different from that identified in 2008/09. We have also considered the Council's performance in previous years as reported under our use of resources judgements and our reports to those charged with governance.
- 1.6 A summary of the fee is shown at Table 1 overleaf.

**Table 1: Proposed Audit Fee**

Audit area	Planned fee	
	2009/10 £	2008/09 £
<b>Statutory Audit work mandated reviews</b>		
Financial statements	216,000	208,000
Use of Resources Assessment VFM Conclusion	93,000 <sup>(2)</sup>	88,000 <sup>(1)</sup>
<b>Risk Based Use of Resources work <sup>(3)</sup></b>	20,000	21,000
<b>Total audit fee</b>	<b>329,000</b>	<b>317,000</b>

(1) The 2008/09 fee for the Use of Resources Assessment includes the judgements reported to the Council in January 2009 and preparatory work for the new regime introduced for the 2008/09 financial year. The 2008/09 fee also includes work on data quality and the review of best value performance indicators which is now considered as part of the new assessment to be reported in September 2009. The fees are therefore not directly comparable.

(2) The Fee relates to the new use of resources regime. We will update the Audit Committee on our audit approach in June 2009.

(3) We will agree an outline programme of work when our risk assessments are complete for the 2009/10 year. At a minimum, this is likely to include a review of the Council's implementation of improvement plans for the Housing Service.

1.7 A plan for the audit of the financial statements will be issued in December 2009. This will detail the risks we have identified, planned audit procedures and any changes proposed to the fee. The plan will be discussed with the Audit Committee.

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

- Managing finances;
- Governing the business; and
- Managing resources.

1.9 We have identified some risks based on the work we have completed at the Council throughout 2008. 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 at Table 2 overleaf

**Table 2: Risk Based Use of Resources work**

Risk	Planned work	Timing of work
<p>The Council is facing a difficult financial outlook. While strong leadership is being shown to balance the 2009/10 budget, there are financial risks across the Council's demand-led services and income streams. The level of the general fund balance while in line with the benchmark level, leaves little room for manoeuvre given the reduction in available revenue reserves in 2008/09.</p> <p>The Council will also need to deal with emerging risks about the financial performance of its significant contractors and private sector partners in the light of the economic downturn.</p>	<p>We will review the Council's arrangements for managing the challenging financial environment.</p>	<p>Ongoing. Outcome to be reported to management and the Audit Committee as appropriate.</p>
<p>The Council recognises the approach to Risk Management is not fully embedded across the Council.</p>	<p>Review of the Council's progress in embedding its approach. We will liaise with internal audit to maximise the overall level of audit coverage and report outcomes through the 2009 use of resources assessment</p>	<p>June 2009</p>
<p>The Council will need to ensure existing policies are enhanced and the risk of inconsistent understanding of its Whistleblowing procedures is addressed.</p>	<p>Review emerging policies and progress - report through our use of resources assessment.</p>	<p>June 2009</p>
<p>The Council acknowledges the need to address the risk involving the improvement required in the management of the Housing Repairs and Maintenance contract.</p>	<p>Review progress in implementing the Council's improvement plan. Report progress in annual audit letter.</p>	<p>TBA</p>

## Other work undertaken by the auditor

- 1.10 In 2008, we dealt with a number of questions and detailed correspondence from local electors about the Council's accounts and its performance in delivering certain services. We liaised with the Monitoring Officer in responding to such questions. The fee for the audit of the Council in 2007/08 and the fee for 2008/09 included a small amount of time to deal with

such questions. The cost of responding to questions from local electors has been met from the fees available.

- 1.11 We are proposing the fee for work involving questions from local electors should be dealt with outside of the fee for the audit of accounts in 2008/09 and the core audit fee for 2009/10 highlighted above. In the event local electors raise questions with us in 2009, we will notify the Chief Financial Officer and the Monitoring Officer accordingly to discuss the potential costs involved.
- 1.12 If we need to make any significant amendments to the 2009/10 core audit fee, we will first discuss this with the Chief Financial Officer and the Chief Executive and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

## Reporting

- 1.13 We will issue a number of reports relating to our work over the course of the audit. These are listed at Appendix 1.
- 1.14 The key members of the audit team for the 2009/10 audit are:
- Robert Grant                      Partner                      0207 065 0207
  - Stuart Frith                      Manager                      0207 065 0432
- 1.15 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 Robert Grant in the first instance. Alternatively you may wish to contact Martin Goodchild, the Managing Partner, ([martin.goodchild@uk.pkf.com](mailto:martin.goodchild@uk.pkf.com)).

## Appendix 1: Planned outputs

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

<b>Planned output</b>	<b>Indicative date</b>
Audit plan	December 2009
Annual governance report	30 September 2010
Auditor's report giving the opinion on the financial statements and value for money conclusion	30 September 2010
Use of resources report	30 September 2009
Final accounts memorandum (should this be required)	31 October 2010
Annual audit letter	TBA by Audit Commission
Risk based value for money reviews	TBA