

AUDIT COMMITTEE

30 JUNE 2010

EXTERNAL AUDIT FEE 2010/11

Report from: Mick Hayward, Chief Finance Officer

Author: Richard Humphrey, Audit Services Manager

Summary

This report and attachment sets out the external auditor's fees for 2010/11 and it is reported to this committee to comply with governance requirements.

1. Budget and Policy Framework

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

2. Background

2.1 In December 2009, this committee received a report from the external auditor (PKF) setting out their 2009/10 work plan and revised fees for that year. The report also confirmed the 2008/09 fee.

2.2 This report sets out the external auditor's indicative fee for 2010/11 of £349,000. The fee covers the following areas:-

- Financial statements, including Whole of Government Accounts (£239,000),
- Use of Resources Assessment, data quality spot checks and VFM conclusion (£90,000),
- Risk based work (£20,000).

2.3 In addition to the fee, there will be additional fees for:-

- Certification of claims and returns (£77,000),
- Grant claims report to those charged with governance (£2,000).

2.4 The external auditor will present their plan to a later meeting of this committee.

3. Analysis of fee

- 3.1 The indicative fee for 2010/11 is marginally above the Audit Commission's guideline of £349,000. The excess cost, above that indicated in the report to this committee in September 2007 which showed a fee of 10% below the Audit Commission's guidelines, is attributable largely to the additional work needed as part of the introduction of International Financial Reporting Standards (IFRS). However, in recognition of the financial pressures facing public bodies, the Audit Commission will subsidise the Council for the increased cost by refunding £21,486, reducing the effective fee to £327,514. This compares to the £329,000 for 2009/10. The cost of Grant Claim work will be added to this and is estimated at £79,000 compared to £84,000 in 2009/10.
- 3.2 The coalition government has recently announced that the comprehensive area assessment will cease with immediate effect and the Audit Commission in their letter to all councils confirmed this on 28 May. However, the majority of external audit work required for the 2009/10 use of resources assessment has already been completed. This work is paid from the 2010/11 fee. Consequently, the Audit Commission does not envisage there will be any impact on the 2010/11 fee.
- 3.3 The external auditor and officers are discussing whether there are any opportunities to reduce the overall cost to this Council. We are currently exploring whether internal audit could carry out some of the grant claim checking under external audit supervision. We will inform this committee of any developments.

4. Risk Management, Financial and Legal implications

- 4.1 The financial implications are set out in the external auditor's letter (attached). There are no risk management or legal implications arising from this report.

5. Recommendations

- 5.1 Members are asked to note the external auditor's 2010/11 indicative fee, the Audit commission subsidy and the option officers are exploring to reduce the overall cost to the Council.

Lead officer contact

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Background papers

External audit's annual plan 2009/10 (December 2009 Audit Committee)



Accountants &
business advisers

N Davies
Chief Executive
Medway Council

BY EMAIL

28 April 2010

Dear Neil

Annual Audit Fee 2010/11

Further to our discussions with officers, we are writing to confirm the audit work we propose to undertake for the 2010/11 financial year at Medway 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;
- 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 2009/10, the audit planning process for 2010/11, including the risk assessment, will continue as the year progresses and our fee will be reviewed and updated as necessary.

The total indicative fee for the audit for 2010/11 is £349,000 which compares to the planned fee of £329,000 for 2009/10 and the actual fee of £317,000 for 2008/09. I have previously discussed with the Chief Finance Officer and the Audit Committee the reasons for the increase in audit fees compared to previous years. The Audit Commission paid a subsidy of £21,486 to the Council in April 2010 to reduce the one-off audit costs of the transition to new International Financial Reporting Standards (IFRS).

The Audit Commission's work programme and scale of fees 2010/11 suggests the audit fee for Medway should be £348,000 and the fee proposed is in line with this amount. A summary of audit fees is shown in the table overleaf.

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Audit Area	Planned Fee		Actual Fee
	2010/11 £	2009/10 £	2008/09 £
Financial statements, including Whole of Government Accounts	239,000	216,000	208,000
Use of Resources Assessment; data quality spot checks and VFM Conclusion	90,000	93,000	88,000
Risk based work	20,000	20,000	21,000
Total Code audit fee	349,000	329,000	317,000
Certification of claims and returns *	77,000	78,000	77,000
Grant claims report to those charged with governance	2,000	6,000	0

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

Your audit fee will be billed in four equal instalments of £87,250, as shown below:

	£
June 2010	87,250
September 2010	87,250
December 2010	87,250
March 2011	87,250
Total	£349,000

Financial statements, including Whole of Government Accounts

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 six per cent of the scale fee which amounts to £21,486.

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.

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 Chief Finance Officer and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

Use of Resources; data quality spot check work and VFM conclusion

Our use of resources assessment 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 and our work informs our 2009/10 value for money conclusion. We have identified some key risks, where as highlighted in our 2009 annual audit letter, the Council is looking to improve its use of resources. For each area, we consider the arrangements put in place by the Council to mitigate the potential risk, and plan our work accordingly.

The guidance relating to data quality spot check work has been revised. Our review of the 2008/09 indicators highlighted a low risk of misstatement which means we should review four indicators in addition to the two mandated benefits indicators, which has been 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 Benefits grant claim. Links to wider certification work have also been added to the guidance to raise the profile of certification work.

Our initial assessment of indicative key risks in relation to value for money audit work and our planned work is shown in the table below:

Indicative key risk	Planned work	Timing of work
<p>Managing the financial risks across demanded services and income streams while balancing the overall financial position</p> <p>Ensuring the medium term financial strategy remains sustainable while planning for reduced growth in resources</p> <p>Finding more innovative ways of working with strategic partners in the challenging economic climate</p> <p>Embedding the value for money framework by implementing the new Performance Management System ('Covalent') to enable the more systematic use of data and information</p> <p>Ensuring risks identified in the 'Gateway' procurement process are kept under review</p>	<p>We will review the Council's progress as part of our risk based use of resources work.</p>	<p>March to July 2010</p>

2010/11 accounts risk

In addition to the risks identified above, our risk assessment has also identified an accounts risk. 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. The Audit Commission survey findings from its review in November 2009 found that only one in seven authorities was “on track” and one in five is having serious difficulties. We assessed the Council as being in the early stages of preparation and planning. Accordingly we feel it appropriate to bring this to your attention at this stage, as shown in the table overleaf.

Indicative significant risk	Planned work	Timing
<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 the IFRS plan and management's transition arrangements, with particular audit emphasis on the following:</p> <ul style="list-style-type: none"> • Review of service arrangements against IFRIC 12 (service concessions) • Review of arrangements against IFRIC 4 (lease arrangements) • Consideration of leasing arrangements against IAS 17 (Leases) • Review of valuation policies and component accounting for assets under IAS 16 (Property, plant and equipment) • Calculation of employee benefits under IAS 19 (Employee benefits) • Review of government grants in light of CiPFA's decision to apply IPSAS 23 • Review of group accounting requirements under IFRS which focuses on ability to control as opposed to actual control. <p>Additional detailed audit procedures will be required in the restatement exercise of comparative balances for years ended 31 March 2009 and 31 March 2010.</p>	<p>April 2010 to March 2011</p>

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.

The 2010/11 fee excludes improvement work we may agree to undertake. Each piece of work would be separately negotiated and a detailed project specification agreed with you. The key members of the audit team for the 2010/11 are:

- Engagement lead Robert Grant 0207 065 0170
- Audit Manager Stuart Frith 0207 065 0000
- Supervisor Kerry Barnes 0207 065 0000

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 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 'Robert Grant', with a stylized flourish extending to the right.

Robert Grant
Partner
PKF (UK) LLP

Copy
Councillor R Andrews, Chairman of the Audit Committee
M Hayward, Chief Finance Officer
C Bryce-Smith, Audit Commission CAAL

Appendix: Planned Outputs

Detailed Audit plan	22 December 2010
Annual governance report	30 September 2010
Use of resources assessment report	September 2010
Annual audit letter	November 2011
Report on certification of grants claims	February 2011

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