

AUDIT COMMITTEE

5 JULY 2011

EXTERNAL AUDIT FEE 2011/2012

Report from: Mick Hayward, Chief Finance Officer

Author: Peter Bown, Accounting Manager

Summary

This report and attachment sets out the external auditor's fees for 2011/2012 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 On 29 March 2011, this committee received a report from the external auditor (PKF) setting out their 2010/2011 work plan and revised fees for that year. The report also confirmed the 2009/2010 fees and estimated core fees for 2011/2012.
- 2.2 This report sets out the external auditor's indicative fee for 2011/2012 of £314,100. The fee covers the following areas:-
- Financial statements, including Whole of Government Accounts (£235,000) and
 - Value for Money conclusion (£79,100).
- 2.3 In addition to the fee, there will be additional fees for:-
- Certification of claims and returns (estimated at £80,000),
 - Grant claims report to those charged with governance (£2,000).
- 2.4 There will also be a rebate from the Audit Commission in respect of extra costs incurred as a result of International Financial Reporting Standards. This is currently unquantified although the rebate for 2010/2011 was approximately £34,200.

- 2.5 The external auditor will present their plan for 2011/2012 to a later meeting of this committee.

3. Analysis of fee

- 3.1 The indicative fee for 2011/2012 has been set at the Audit Commission's guideline of £314,100. This compares to £349,000 for 2010/2011. The cost of Grant Claim work will be added to this and is estimated at £82,000, the same as 2010/2011.
- 3.2 The external auditor and officers are discussing whether there are any opportunities to reduce the overall cost to this Council, including the use of internal and external resources to assist grant claim checking etc. However Internal Audit resources are currently severely depleted as a consequence of staff turnover and it is therefore unlikely that much assistance can be given from that source.

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 significant risk management or legal implications arising from this report.

5. Recommendations

- 5.1 Members are asked to note the external auditor's 2011/2012 indicative fee, the Audit commission potential subsidy and that officers are exploring options to reduce the overall cost to the Council.

Lead officer contact

Name Peter Bown
Job Title Accounting Manager
Telephone: 01634 332311
email: peter.bown@medway.gov.uk

Background papers

Annual Audit Plan 2010/2011 report to Audit Committee 29 March 2011



Accountants &
business advisers

N Davies
Chief Executive
Medway Council
BY EMAIL

20 April 2011

Dear Neil

Annual Audit Fee Letter 2011/12

We are writing to confirm the audit work we propose to undertake for the 2011/12 financial year at Medway Council. The indicative fee for the audit is £314,100, which is based on the risk-based approach to audit planning as set out in the Code of Audit Practice and the work mandated by the Audit Commission for 2011/12. We have discussed the letter with Mick Hayward and the level of fee was discussed at the Audit Committee meeting held on 29 March 2011.

As we have not yet completed our audit for the 2010/11 year, this Letter and its underlying risk assessment focus primarily on risks in respect of our statutory value for money (VFM) conclusion audit. The audit planning process for 2011/12, including our risk assessments, will continue as the year progresses and fees will be reviewed and updated as necessary. The Audit Commission has published the fees to be paid by local authorities in 2011/12 and Medway's fee will amount to £314,100. A summary of the indicative fee, and how it compares to the 2010/11 planned and 2009/10 actual fees, is shown in the table below.

Audit area	Actual fee 2009/10 £	Planned fee 2010/11 £	Estimated Fee 2011/12 £
Financial statements, including WGA	216,000	239,000	235,000
2009/10 Use of Resources work	113,000		
2010/11 Value for money conclusion		110,000	
2011/12 Value for money conclusion	0	0	79,100
Total Code audit fee	£329,000	£349,000	£314,100
Audit Commission Rebate (Approx.)	0	£(34,200)	TBA
Certification of claims and returns	£86,000	£80,000	£80,000
Grant claims report to those charged with governance	£2,000	£2,000	£2,000
Non-Audit Services			
Advice and Assistance work	0	£16,905	0

Tel 020 7065 0000 | Fax 020 7065 0650

www.pkf.co.uk

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

PKF (UK) LLP is a limited liability partnership registered in England and Wales with registered number OC310487.

A list of members' names is open to inspection at Farringdon Place, 20 Farringdon Road, London EC1M 3AP, the principal place of business and registered office. PKF (UK) LLP is authorised and regulated by the Financial Services Authority for investment business activities. PKF (UK) LLP is a member firm of the PKF International Limited network of legally independent firms and does not accept any responsibility or liability for the actions or inactions on the part of any other individual member firm or firms.

For the certification of grant claims and returns, the indicative fee for 2011/12 and the planned fee for 2010/11 relate for the years ended 31 March 2012 and 31 March 2011 respectively. The certification fees for 2009/10 are the actual fees for the year ended 31 March 2010.

The indicative audit fee excludes improvement work we may agree to undertake (outside of the Audit Code of Practice). Each piece of work would be separately negotiated and a detailed project specification agreed with you.

The scale fee for the 2011/12 year has been determined by the Audit Commission and reflects a reduction for the lower on-going audit costs after implementing IFRS. The full details are set out in the Audit Commission's document '*Work programme and scales of fees 2011/12*'.

The indicative audit fee has initially been set at the scale fee level. The Audit Commission has stated that variations to the scale fee can be approved, to reflect changes in circumstances, before or at the completion of the 2011/12 audit.

A separate plan for the audit of the financial statements will be issued in December 2011. This will detail the significant financial statements 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 if necessary, prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

We will continue to work with officers to examine ways of reducing the audit fee. However, given the risks the Council must manage in 2011/12 and beyond, we do not anticipate the amount of fee reducing below the scale fee.

Significant audit risks

Value for money

In 2010/11 the Audit Commission reviewed its approach to auditors' VFM work so that auditors give their statutory VFM conclusion based on the following two reporting criteria:

- the organisation has proper arrangements in place for securing financial resilience.
- the organisation has proper arrangements for procuring resources within tighter budgets.

The focus of these criteria for 2011/12 continues to be:

- the organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- the organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

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

Indicative key risk	Planned work	Timing of work
<p>Financial Performance and Efficiency Programme</p> <p>The Council is dealing with a difficult financial outlook and is currently reviewing its priorities and assessing its financial resilience. There are significant financial pressures as a result of the economic downturn and cost pressures arising from the increase in demand for services.</p> <p>The Council is working to secure total (revenue) savings of £23.5 million in 2011/12. Savings in the Council's capital programme amounting to £1 million are also planned.</p> <p>While the Council has a good track record of achieving its savings plans, there is a risk it may not be able to deliver the planned savings and efficiency improvements which may, in turn, adversely affect service delivery.</p>	<p>The Council's financial position will be regularly monitored during the course of our planning and audit work, and we will focus on the arrangements established and outcomes of the Council's plans for delivering efficiencies in our value for money conclusion work.</p> <p>We will review the Council's approach to identifying and responding to financial risks and opportunities. We will also review progress made towards efficiency plans and the financial stability of the Council over the medium term. We will also consider the extent to which financial plans support achievement of Council priorities where these have been updated in the year.</p>	<p>April 2011 – March 2012</p>
<p>Reserves and balances</p> <p>The total amount of general balances and reserves available will require careful management given the significant financial risks and uncertainties the Council is facing.</p>	<p>We will monitor achievement of the Council's strategy for maintaining its general balances and reserves at a prudent level. We will also review the scope and extent of earmarked reserves maintained as the Council further develops its priorities.</p>	<p>April 2011 – March 2012</p>

Financial statements

We have not identified any significant accounts audit risks that we wish to bring to your attention at this stage and in setting the indicative 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 for 2010/11.

Administration

The indicative audit fee will be billed in four equal instalments of £78,525 as shown below.

Month	£
June 2011	78,525
September 2011	78,525
December 2011	78,525
March 2012	78,525
Total	£314,100

The key members of the audit team for the 2011/12 year are:

Engagement Partner – Robert Grant

Email: robert.grant@uk.pkf.com
Tel: 020 7065 0170

Manager – Geraldine Daly

Email: geraldine.daly@uk.pkf.com
Tel: 020 7065 0000

Senior – Kerry Barnes

Email: kerry.barnes@uk.pkf.com
Tel: 020 7065 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 me 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



Robert Grant
Partner
PKF (UK) LLP

copy

M Hayward, Chief Finance Officer
Councillor Clarke, Chairman of the Audit Committee