

Report to: **Audit and Best Value Scrutiny Committee**

Date: **8 July 2009**

By: **Chief Executive and Deputy Chief Executive and Director of Corporate Resources**

Title of report: **External Audit and Inspection Plan 2009/10**

Purpose of report: **To appraise the Committee of the External Audit and Inspection Plan.**

RECOMMENDATION: The Committee is recommended to consider the External Audit and Inspection Plan for 2009/10

1. Financial Appraisal

1.1 The proposed audit and inspection fee for 2009/10 is £202,493, a rise of 5.3% over the comparable fee for 2008/09 (£192,273) and this will be funded from within existing budgets. The fee consists of two main elements: the inspection fee of £18,293 charged by the Audit Commission (an increase of 11.4% on 2008/09); and the audit fee of £184,200 charged by PKF (an increase of 3% on 2008/09). The risk discount included in the audit fee has reduced from 22% last year to 17% this year and reflects the additional risk relating to Audit Standards and International Financial Reporting Standards (IFRS) set out on p3 of the PKF letter. The level of the risk discount still reflects favourably on the control environment, the work of internal audit and the quality of the final accounts.

1.2 In addition to the audit and inspection fee there will be additional charges for: work on the Age Well PFI (£7,000); grant claim certification (£20,000); and the National Fraud Initiative 2008 (£1,875). The first two will be recharged to the relevant departmental budgets. PKF will also make additional charges for dealing with complaints or objections to the accounts and this will include final fees for work on objections to the 2007/08 accounts for which invoices on account already total £27,500.

2. Supporting Information

2.1 There is no longer a single audit and inspection plan reflecting the work of the Audit Commission and the Council's external auditors PKF. Instead from 2009/10 there are separate fee notes produced at the beginning of the financial year (copies attached as Appendices A and B) and a more detailed external audit plan which will be produced in December 2009 and will reflect any risks and issues arising from the audit of the 2008/09 accounts. The fee letters have been reviewed by Chief Officers Management Team and will be considered by Cabinet on 28 July. Officers will continue to liaise with both the Commission and PKF to ensure that their work is delivered as efficiently and effectively as possible and that internal and external audit plans are complementary and make best use of audit resources.

2.2 External audit arrangements for the Pension Fund are now dealt with separately and will be reported to the Governance Committee in due course.

CHERYL MILLER
Chief Executive

SEAN NOLAN
Deputy Chief Executive and Director of Corporate Resources

Contact Officers: Duncan Savage, 01273 482330
Jane Mackney, 01273 482146

BACKGROUND DOCUMENTS None



Accountants &
business advisers

Mr Sean Nolan
Deputy Chief Executive
East Sussex County Council
St Anne's Crescent
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BN7 1UE

Our ref: SF/RB/4008879

27 April 2009

Dear Sean

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 East Sussex County 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 £184,200 which compares to the planned fee of £178,850 for 2008/09 and the actual fee of £175,000 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 | 77,650 | 75,400 | 80,400 |
| Use of Resources/VFM Conclusion [including risk based work] | 58,350 | 56,650 | 49,960 |
| Planning & Reporting | 48,200 | 46,800 | 44,640 |
| Total Code audit fee | 184,200 | 175,850 | 175,000 |
| Certification of claims and returns | 20,000 | 20,000 | 18,352 |

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The Audit Commission has published its work programme and scales of fees 2009/10. The scale fee for East Sussex County Council is £221,450. The fee proposed for 2009/10 is 17 percent below 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 the same level as for 2007/08. 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 Head of Corporate Finance 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. 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>Age Well PFI scheme</p> <p>The Council is in the process of completing the procurement of the Age well PFI scheme, with a projected financial completion date of February 2010. The scheme is part of the Adult Social Care service plan and represents a significant investment in the service.</p> | <p>As part of our VFM audit we will continue to review the procurement process for the PFI scheme through attendance at regular progress meetings and review of supporting documentation.</p> | <p>April 2009 – March 2010</p> |
| <p>Waste Disposal</p> <p>The Council has limited future waste landfill capacity and is largely reliant on the (Joint) PFI Project with Veolia to deliver solutions that mitigate that and the potential financial effects of the Landfill Allowance Trading Scheme (LATS).</p> <p>However, the Council expects to still be reliant in LATS in future years and the future costs of LATS cannot be predicted with any certainty.</p> <p>Progress under the PFI scheme has, however, been slower than planned in the key area of creating the Energy from Waste plant at Newhaven. There are potentially financial risks for the Council as a consequence.</p> | <p>We will keep under review the actions already being taken by the Council to reduce the risk including how it deals with the PFI project.</p> <p>The adequacy of the Waste Reserve will also be kept under review.</p> | <p>April 2009 – March 2010</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..

The key member of the audit team for the 2009/10 is:

- Audit Manager Stuart Frith 020 7065 0432
- Audit Supervisor Dinesh Manuelpillai 020 7065 0000

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 Plan 2008/09, presented to the Audit Committee in June 2008.

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

| Risk | Planned work |
|---|--|
| <p>Audit standards</p> <p>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.</p> | <p>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.</p> |
| <p>IFRS</p> <p>The council is required to start the process of readying itself for the conversion to International Financial Reporting Standards.</p> <p>For the period under audit, the council is expected to create a robust control environment which will lead to an accurate starting point of conversion, in being the 08/09 balance sheet amounts.</p> <p>The systems and processes in place will determine the accuracy of the converted figures used in the restatement process. There is a risk that an ineffective system of processes and controls can lead to an erroneous IFRS restatement.</p> | <p>We will carry out a separate piece of work focusing solely on the Councils ability to produce correctly restated figures for IFRS conversion purposes.</p> <p>The work will be centred around testing the systems and controls in place which surround the conversion process.</p> |

To address these risks we will discuss and agreed with officers additional work scope and our estimates for resource input, with consequent impact on 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 has not identified any risk factors that merit audit emphasis.

We have set a triviality level of £50,000 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 Richard S. Bint 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



Richard S. Bint
Partner
PKF (UK) LLP

cc Director of Finance

cc Chair of the Audit Committee

Appendix: Planned Outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit and Best Value Scrutiny Overview and 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 | August / September 2010 |
| Use of resources report | September 2010 |
| Final accounts memorandum (to the Director of Finance) | October 2010 |
| Annual audit letter | November 2010 |

28th April 2009

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RECEIVED
30 APR 2009

Dear Cheryl

Annual inspection fee 2009/10

I am writing to confirm the assessment and inspection work that we propose to undertake for the 2009/10 financial year at East Sussex County 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 £18 293 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 | £18 293 |

| | |
|-------------------------------------|----------------|
| Risk based inspection if applicable | n/a |
| Total inspection fee | £18 293 |

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. Alternatively you may wish to contact the South East (sub) Region Head of Operations, Neil Childs.

Yours sincerely,



PP Sandra Prail
Comprehensive Area Assessment Lead (Sussex)

cc Mr Sean Nolan