

Report to: **Audit, Best Value and Community Services Scrutiny Committee**

Date: **1 June 2011**

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

Title of report: **External Audit Fee Letters 2011/12**

Purpose of report: **To advise the Committee of the fees and high level work plans proposed by the Council's external auditors PKF**

RECOMMENDATION: The Committee is recommended to consider the External Audit Fee Letters for 2011/12

1. Financial Appraisal

1.1 The proposed core external audit fee for the County Council for 2011/12 is set by the Audit Commission at £185,715. According to its website the Commission expects to make a rebate on these fees but the amount will not be notified until the summer. The 2011/12 fee is broadly in line with that charged for 2010/11 of £183,033 (this includes rebates paid by the Audit Commission but excludes an additional fee of £12,000 for IFRIC 12 work in relation to the audit of the 2009/10 accounts but paid in 2010/11) and is the fourth lowest of any of the remaining 26 County Councils. This represents an overall reduction in audit and inspection fees of around £29,000 or 15.7% since 2009/10 (the last year in which the Commission levied a charge for inspection fees).

1.2 In addition to the core external audit fee there will be additional charges for grant claim certification (c£17,000); and the National Fraud Initiative (c£2,000). PKF will also make additional charges for dealing with complaints or objections to the accounts which in 2010/11 amounted to £6,727.

1.3 The external audit fee for the East Sussex Pension Fund for 2011/12 is set by the Audit Commission at £43,570 and this is broadly in line with the fee for 2010/11 of £44,878.

2. Supporting Information

2.1 The fee notes produced (copies attached as Appendices A and B) set out an indicative fee for the year and a high level summary of the auditor's work plan and risk assessment. A more detailed external audit plan will be produced in December 2011 and will reflect any risks and issues arising from the audit of the 2010/11 accounts. The fee letters will be considered by Cabinet on 5 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.

BECKY SHAW Chief Executive	SEAN NOLAN Director of Corporate Resources
Contact Officers	Duncan Savage, 01273 482330 Jane Mackney, 01273 482146

Local Member: All
Background Documents
None



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Sean Nolan
East Sussex County Council
County Hall
St Anne's Crescent
Lewes
East Sussex
BN7 1UE

Our ref: 4008879/RSB/JC

26 April 2011

Dear Sean

Annual Audit Fee Letter 2011/12 for East Sussex County Council

Indicative audit fee

We are writing to confirm the audit work that we propose to undertake for the 2011/12 financial year at East Sussex County Council. The indicative fee for the audit is £185,715, 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.

As we have not yet completed our audit for 2010/11, 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 risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary. 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	Indicative fee 2011/12 £	Planned fee 2010/11 £	Actual fee 2009/10 £
Financial statements, including WGA	145,375	145,375	137,850
VFM Conclusion, including risk based work	40,340	60,975	58,350
Total Code audit fee	185,715	206,350	196,200
Certification of claims and returns*	17,000	17,000	16,872

* The indicative fee for 2011/12 and the planned fee for 2010/11 relate to the certification of grant claims and returns 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.

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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.



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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 2011/12 has been determined by the Audit Commission as £185,715, which includes a reduction of 10 per cent for county councils to reflect lower costs for the new approach to VFM audit work. The full details are set out in the Audit Commission's *Work programme and scales of fees 2011/12*. At this stage the indicative audit fee has 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.

The proposed fee continues to reflect discounts provided to the Council in prior years as a result of the Council's strong sound control environment and robust Internal Audit function. We therefore do not believe that there is scope to further reduce the audit fee at this stage, although we are happy to discuss this with you.

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 you and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Audit and Best Value Scrutiny Committee.

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 challenging how it secures economy, efficiency and effectiveness.

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.

We have not identified any significant value for money audit risks at this stage.

As part of our work on the second reporting criterion we will review the risk of the Council not delivering against its savings targets for the year, which are necessary to respond to the reductions in central government funding. It is possible that we may be required to complete a financial resilience return for the Audit Commission as a follow-up to the return submitted in our value for money work for 2010/11.

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 that 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 4 equal instalments of £46,428.75 from June 2011.



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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 as the Audit Commission contact partner 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 'Richard Bint'.

Richard Bint
Partner
PKF (UK) LLP

cc Becky Shaw, Chief Executive

cc Councillor Paul Sparks, Chair of the Audit and Best Value Scrutiny Committee

cc Duncan Savage, Assistant Director - Audit and Performance



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Sean Nolan
East Sussex County Council
County Hall
St Anne's Crescent
Lewes
East Sussex
BN7 1UE

Our ref: 4013548/RSB/JC

26 April 2011

Dear Sean

Annual Audit Fee Letter 2011/12 for East Sussex Pension Fund

Indicative audit fee

We are writing to confirm the audit work that we propose to undertake for the 2011/12 financial year on the East Sussex Pension Fund. The indicative fee for the audit is £43,570, 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.

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 fees will be reviewed and updated as necessary. 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.

	Indicative fee 2011/12 £	Planned fee 2010/11 £	Actual fee 2009/10 £
Code audit fee	43,570	44,878	44,878

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 2011/12 is £43,570 based on the calculations in the Audit Commission's *Work programme and scales of fees 2011/12*. The indicative audit fee has initially been set at the scale fee level as no significant audit risks have been identified at this stage.

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.

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We do not believe that there is scope to reduce the audit fee at this stage, although we are happy to discuss this with you.

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 you and, if necessary, prepare a report outlining the reasons why the fee needs to change for discussion with the Audit and Best Value Scrutiny Committee.

Significant audit risks

We have not identified any significant 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 that 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 4 equal instalments of £10,892.50 from June 2011.

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 as the Audit Commission contact partner 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 Bint
Partner
PKF (UK) LLP

cc Becky Shaw, Chief Executive

cc Councillor Paul Sparks, Chair of the Audit and Best Value Scrutiny Committee

cc Duncan Savage, Assistant Director - Audit and Performance