

20 May 2010

Myfanwy Barrett  
Corporate Director of Finance  
London Borough of Harrow  
PO Box 57  
Civic Centre  
Station Road  
Harrow  
HA1 2XF

**Tele** 0844 798 2275  
**Email** j-smaill@audit-  
commission.gov.uk

Dear Ms Barrett

### **Audit fees 2010/11**

I refer to your letter dated 12 April 2010, addressed to Annette Furley of the Audit Commission (the Commission), expressing your concerns about the proposed 2010/11 audit fee. Your letter was passed to me to respond to the queries you had about the scale fee. I understand Paul Schofield, your appointed auditor from Deloitte LLP, has already provided a full response to the issues you raised. I have therefore not set out to repeat the information Paul provided you in his letter of 29 April.

Your Governance, Audit and Risk Management Committee specifically asked whether it is realistic to set the scale fee at the point where there are no significant audit risks and whether there are London boroughs that meet this condition. You also asked whether any London boroughs have fees which are below the published scale fee, and if so what has enabled them to achieve this. I will respond to each of these in turn.

#### *Setting of scale fees*

It is important to note the prescribing of the scales of fees is the Commission's role, not the auditors. This responsibility arises from section 7 of the Audit Commission Act 1998 (AC Act) and section 12 of the Local Government Act 1999. In law, fees are payable to the Commission itself. However, where firms are the appointed auditors, they collect fees on our behalf. They keep an agreed sum for carrying out the audit and send the balance to the Commission.

You are aware the Commission has defined the scale audit fee as the fee required by auditors to carry out the work necessary to meet their statutory responsibilities under the AC Act in accordance with the Code of Audit Practice.

Auditors will tailor their work to reflect local circumstances. In particular, they will carry out an assessment of the financial and operational risks facing the body and the arrangements it has put in place to manage those risks. In this assessment, auditors will consider the strength of the

control environment; the quality of working papers produced to support the financial statements; and the extent of internal audit work and the reliance that can be placed on it.

The Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work was required than envisaged by the scale fee. The Commission may therefore charge a fee which is larger or smaller than the scale fee to reflect the actual work that auditors need to do to meet their statutory responsibilities. The Commission will do this on the basis of the auditor's assessment of risk and the scale and complexity of the audit at a particular body. This fee then becomes payable.

It is a matter for the auditor to decide the work necessary to complete the audit and, subject to approval by the Commission, to seek to agree a variation to the scale fee with the audited body. The Commission will normally expect to approve a proposed variation to the scale fee where this is agreed by the auditor and the audited body.

*London Borough Council fees – 2009/10*

We have reviewed the planned fees for the audit of London boroughs' accounts for 2009/10. Thirteen have been agreed below the scale fee. Five have been agreed at the scale fee with the remaining 14 being above. Further information on planned audit fees across audited bodies can be found on the Commission's fee comparator tool which can be found at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk). We aim to publish the planned fees for 2010/11 in June.

Your auditor is best placed to discuss with you areas for improvement going forward that would contribute to a more efficient audit and help to reduce the audit fee

Please contact me if I can be of any further assistance.

Yours sincerely



Jo Smail  
*Head of Audit Regulation*