

# REPORT FOR: **CABINET**

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<b>Date:</b>	23 June 2010
<b>Subject:</b>	Comprehensive Area Assessment (CAA) and Audit Fee Letters 2010/11
<b>Key Decision:</b>	No
<b>Responsible Officer:</b>	Myfanwy Barrett and Tom Whiting, Corporate Director of Finance and Assistant Chief Executive
<b>Portfolio Holder:</b>	Councillors Bill Stephenson and Graham Henson, Leader and Portfolio Holder for Finance and Business Transformation, and Portfolio Holder for Performance, Customer Services and Corporate Services
<b>Exempt:</b>	No
<b>Decision subject to Call-in:</b>	Yes
<b>Enclosures:</b>	Audit and Inspection Fees (Appendix 1) Variation from Audit Commission audit fee scales (Appendix 2) CAA Fee Letter 2010-11 (Appendix 3) Audit Fee Letter 2010-11 (Appendix 4) Letter to Audit Commission and Responses (Appendix 5)

## **Section 1 – Summary and Recommendations**

This report gives Cabinet an opportunity to comment on the proposed work plan and fees of the Audit Commission and External Auditor.

**Recommendations:** That Cabinet comment on the proposed work plan and fees.

**Reason:** To ensure that Cabinet has a clear view of the work that will be undertaken by the Audit Commission and the External Auditor in 2010-11.

## **Section 2 – Report**

### **Introductory paragraph**

1. The Comprehensive Area Assessment (CAA) fee letter was been provided by the Audit Commission in March. It is attached at Appendix 3.
2. The Audit Fee Letter was provided by Deloitte LLP, the Council's appointed external auditor in March. It is attached at Appendix 4.
3. The planned work included the area assessment, organisational assessment, audit of the financial statements for 2010-11 for the Council and the Pension Fund, grant claims, and the Use of Resources Assessment.
4. The outputs from the work will be summarised in the Annual Audit Letter.

### **Recent Developments**

5. Cabinet members will be aware that the new government has recently announced that CAA and Use of Resources will be discontinued with immediate effect and that no scores will be published in 2010.
6. Both the Audit Commission and our External Auditor have advised the Council that all work in these areas will stop. However, a significant proportion of the work on CAA and Use of Resources has already been completed in 2010. Furthermore, the Auditor will still be required to include a value for money conclusion in the Council's accounts and this relies extensively on the Use of Resources work programme.
7. The Corporate Director of Finance will discuss the impact of the government announcement on the workplans and fees for 2010-11 and subsequent years, but at this stage the position is unclear.
8. The rest of this report reflects the fee letters that were provided in March.

## Options considered

9. The Audit Commission will carry out an area assessment of the local partnership and an organisational assessment for the Council. There will be no risk based inspections in 2010-11. The fee for the area assessment is grant funded (by DCLG) and the fee for the organisational assessment is £19,956.
10. The External Auditor has assessed the time required to carry out the work and the risk level to arrive at the fee of £367,342 (2009-10: £374,520) which represents a reduction of £7,178 or 2%. Included within the 2010-11 fee is the amount of £23,472 in respect of additional audit procedures required as a result of the transition to reporting in accordance with International Financial Reporting Standards (IFRS). This additional fee is in line with the guidance issued by the Audit Commission.
11. The additional cost of IFRS is more than offset by a reduction in the Use of Resources fee.
12. Appendix 1 shows the combined audit and inspection fees over a four year period.
13. The Audit 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 Audit Commission Act, in accordance with the Code. It represents the Commission's best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.
14. The fee proposed for 2010-11 is 10% above the scale fee (2009-10: 21% above the scale fee). This variance in scale fee is within the acceptable level of variation set by the Audit Commission, which is 25%. The variance to the scale fee reflects the External Auditor's assessment of the level of audit risk. In the External Auditor's 2009-10 Accounts Opinion Audit Plan they identify eight significant audit risk areas (10 significant risk areas were identified in 2008-09).
15. Appendix 2 shows the variance to the audit scale fee over a four year period.
16. The Audit Fee Letter was reported to the Governance, Audit and Risk Management Committee on 8 April. Following the meeting a letter was sent to the Audit Commission expressing concern at the level of the audit fee and seeking more information.
17. During the year additional costs can arise if there are complications with the accounts or public enquiries to the auditor. The Auditor discusses such issues with the Corporate Director of Finance before raising any additional bills. Any significant changes to the fee will be reported to the Governance, Audit and Risk Management Committee.

## **Financial Implications**

18. The planned fees are within budget.

## **Performance Issues**

19. The plan includes work on the Use of Resources assessment, following submission of the Council's self assessment, on 15 March.

20. For the data quality element, a small number of performance indicators, including National Indicators, will be selected for a detailed spot check which will include an assessment of the underlying systems and processes for collecting and validating the data as well as how the information is used.

21. The work includes a Value for Money assessment and detailed work on the 2009-10 profile is currently being undertaken in preparation.

22. Area assessment will include consideration of the National Indicator Set, the Area self assessment which is currently in preparation, and the input from the Joint Inspectorates.

## **Environmental Impact**

23. There are no direct environmental implications.

## **Risk Management Implications**

24. There are no direct risk management implications. The Council's risk management arrangements will be assessed under Use of Resources.

## **Corporate Priorities**

25. Audit and inspection activity cuts across all the Council's priority areas.

## **Equalities Implications**

26. None directly associated with this report.

### **Section 3 - Statutory Officer Clearance**

Name: Myfanwy Barrett  Chief Financial Officer

Date: 6 April 2010

Name: George Curran  on behalf of the  
Monitoring Officer

Date: 8 April 2010

### **Section 4 – Performance Officer Clearance**

Name: Martin Randall  On behalf of  
Divisional Director  
Partnership,  
Development and  
Performance

Date: 29 April 2010

### **Section 5 – Environmental Impact Officer Clearance**

Name: John Edwards  Divisional Director  
(Environmental  
Services)

Date: 12 April 2010

### **Section 6 - Contact Details and Background Papers**

Contact: Myfanwy Barrett, Corporate Director Finance,  
Tel 020 8420 9269

Background Papers: NONE

**Call-In Waived by the  
Chairman of Overview  
and Scrutiny  
Committee**

**NOT APPLICABLE**

*(for completion by Democratic  
Services staff only)*

Audit and Inspection Fees – Trend over 4 years

Estimated fees included in the annual plans:

	2007-08 £000	2008-09 £000	2009-10 £000	2010-11 £000
Financial Statements	248	282	259	282
Use of Resources/ VFM Conclusion	56	67	111	80
Data Quality	42	43	included above	included above
Whole of Government Accounts	4	5	5	5
<b>Total Audit Fee</b>	<b>350</b>	<b>397</b>	<b>375</b>	<b>367</b>
<b>% change</b>		<b>+13%</b>	<b>-5%</b>	<b>-2%</b>
National Fraud Initiative	1	1	2	2
Grant Claims	130	125	100	100
Pension Fund	21	38	38	38
CPA/CAA	69	87	20	20
<b>Grand Total</b>	<b>571</b>	<b>647</b>	<b>535</b>	<b>527</b>
<b>% change</b>		<b>+13%</b>	<b>-17%</b>	<b>-1%</b>

Notes:

1. The actual fees can vary from the estimates.
2. The financial statements fee for 2007-08 has been adjusted to exclude the pension fund element, to enable a better comparison between years, but this was not conducted as a separate audit in 2007-08.
3. The actual cost of grant claims was £95k in 2007-08 and £106k in 2008-09.
4. In 2009-10 and 2010-11 the area assessment is funded by a grant from DCLG.

## Appendix 2

### Variation from Audit Commission audit fee scales

	2007-08	2008-09	2009-10	2010-11
Variation	18%	+27%	+21%	+10%

#### Notes:

1. The basis for calculating the fee scale changed in 2009-10. The variance for 2007-08 and 2008-09 has been restated using the current methodology to ensure a reasonable comparison can be made.