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Our ref: PJS/MRH

29 April 2010

Dear Myfanwy

## **Audit fees 2010-11**

We have prepared this letter in response to questions raised during our meeting with the Governance, Audit & Risk Management Committee (GARM) on 8 April 2010 in respect of our proposed fee for the audit of Harrow Council ("the Council") in 2010-11.

The indicative fee outlined in our letter dated 12 March 2010 for the 2009-10 audit was £367,342. We note the GARM's concern over the level of the fees in light of the pressures to find efficiencies and improve value for money and have responded below to the questions and comments raised.

### How are fees calculated?

We calculate our fees based on budgeted time input by individual multiplied by a discounted day rate. At this stage we have based our budget on known inputs in previous years adjusted to reflect the assumption that the general level of risk in relation to the audit of the financial statements will be lower than that identified to 2009/10. This has been reflected by a 2% reduction in our fee from 2009-10.

### Analysis of allocated resources

We have attached as Appendix 2 an analysis of the resources that will be allocated to the Harrow audit in terms of number of staff, seniority and a blended day rate. This is a large audit for Deloitte and the analysis shows that our input across the year (excluding grant work) will be more than 3,000 hours. The Appendix also compares our fee and day rate to rates included in the Audit Commission guidance.

## Comparison to the Audit Commission scale / other boroughs

The 2010-11 scale fee is calculated based on a fixed element (£151,500) plus an element related to gross expenditure (0.030%) of the council. The calculated scale fee for Harrow Council for 2010-11 is £333,570.

The Audit Commission state in their guidance that for 2010-11 the scale fee “represents the Commission’s best estimate of the fee required to complete an audit where:

- the audited body has no significant audit risks; and
- 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.”

In our audit planning report to the GARM for the 2009-10 audit, dated 12 March 2010, we identified 8 significant audit risks (10 significant audit risks were identified in our audit plan for 2008-9).

In our audit opinion report to the GARM for the 2007-8 audit, dated 14 October 2008, we identified 16 audit adjustments above our de minimis reporting limit, four of these adjustments were material and were adjusted in the statement of accounts. In addition we identified a significant disclosure deficiency in the Statement of Accounts presented for audit because the Council had not applied the new SORP 2007 requirements relating to the adoption of the presentation and accounting requirements for financial instruments of FRS 25, 26 and 29. In that report we raised 10 control recommendations.

In our audit opinion report to the GARM on the 2008-9 audit, dated 16 September 2009, we identified 8 audit adjustments above our de minimis reporting limit, one of these adjustments was material and was adjusted in the statement of accounts. In the 2008-9 report we raised 4 control recommendations.

Based on the history of financial reporting issues as set out above, and the number of expected audit risks, we would expect the audit fee for the Council to exceed the scale fee set by the Audit Commission. We understand that the Council has improved its processes which has resulted in a reduction in the number of adjustments and recommendations identified through our audit each year. We have assumed that this process of improvement will continue and have therefore proposed a significant reduction in the variance above the scale fee for 2010-11 to 10% compared to 21% in 2009-10.

Our indicative fee for 2010/11 is a reduction on 2009-10 by 2% and reflects our assessment of the work we need to carry out to meet our statutory and professional responsibilities and is based on our assessment of audit risks.

The Audit Commission has set up a tool to assist audited bodies to compare their audit fees against similar bodies. The “Audit Fee Comparator” tool can be located at: <http://auditfeecomparator.audit-commission.gov.uk/>

At present the details are only available for 2009-10 planned fees as fees for 2010/11 have yet to be finalised. However what this shows in actual £ terms is that there are 18 London Boroughs with fees higher than Harrow. Obviously the fee depends on the size, complexity



and risk of the entity. The graph from the Audit Commission's comparator is included in Appendix 1.

## Process for setting the fees

The timing of agreeing the audit fees for 2010-11 is outside of our control as this is stipulated by the Audit Commission. We are required to write to you prior to 30 April 2010 with our fee letter in the format prescribed by the Audit Commission. Our understanding of the timing of this is to assist the Audit Commission in calculating the % contribution we pay them on our 2010-11 audit fees which becomes payable in 12 monthly instalments commencing August 2010.

We stated in our draft audit fee letter dated 12 March 2010, *"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."*

We stated this because of the timing of the requirement being very early in our process. You should note from the fee letter that we plan to issue our audit opinion plan in March 2011 at which point we will be in a good position to assess the level of risk and therefore the accuracy of our indicative fee.

## Fees in respect of IFRS

As set out in our draft audit fee letter dated 12 March 2010, our indicative audit fee for the Financial Statements is £282,472 in 2010-11 compared to £259,000 in 2009-10. We stated in our audit fee letter that the increase of £23,472 in the Financial Statements fee on prior year is in line with the Audit Commission guidance in respect of inflation and the additional audit requirements in respect of the first year adoption of International Financial Reporting Standards (IFRS).

The Audit Commission has now confirmed that it will subsidise the 'one-off' element of the cost of transition to International Financial Reporting Standards (IFRS) for local authorities from 2010-11. The schedules of rebates to be paid by the Commission to audited bodies to cover the additional audit costs arising from the transition to IFRS are available on the Commission's website which shows the proposed subsidy for Harrow Council to be £19,650.

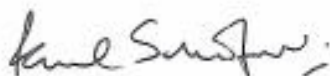
## How to reduce fees in the future

Over the last few years we have met regularly with you to assist you in identifying ways in which you can improve your efficiency and the quality of the deliverables you provide to us. Implementation of these suggestions impacts favourably on our audit process, making our work more efficient and keeping costs down. Areas discussed include a better year-end delivery re the accounts, improving the accuracy and completeness of supporting work papers and the timeliness of responses and deliverables.

I hope that this responds to the matters raised at GARM. Please feel free to contact me if you have any further questions or comments.

Kind regards

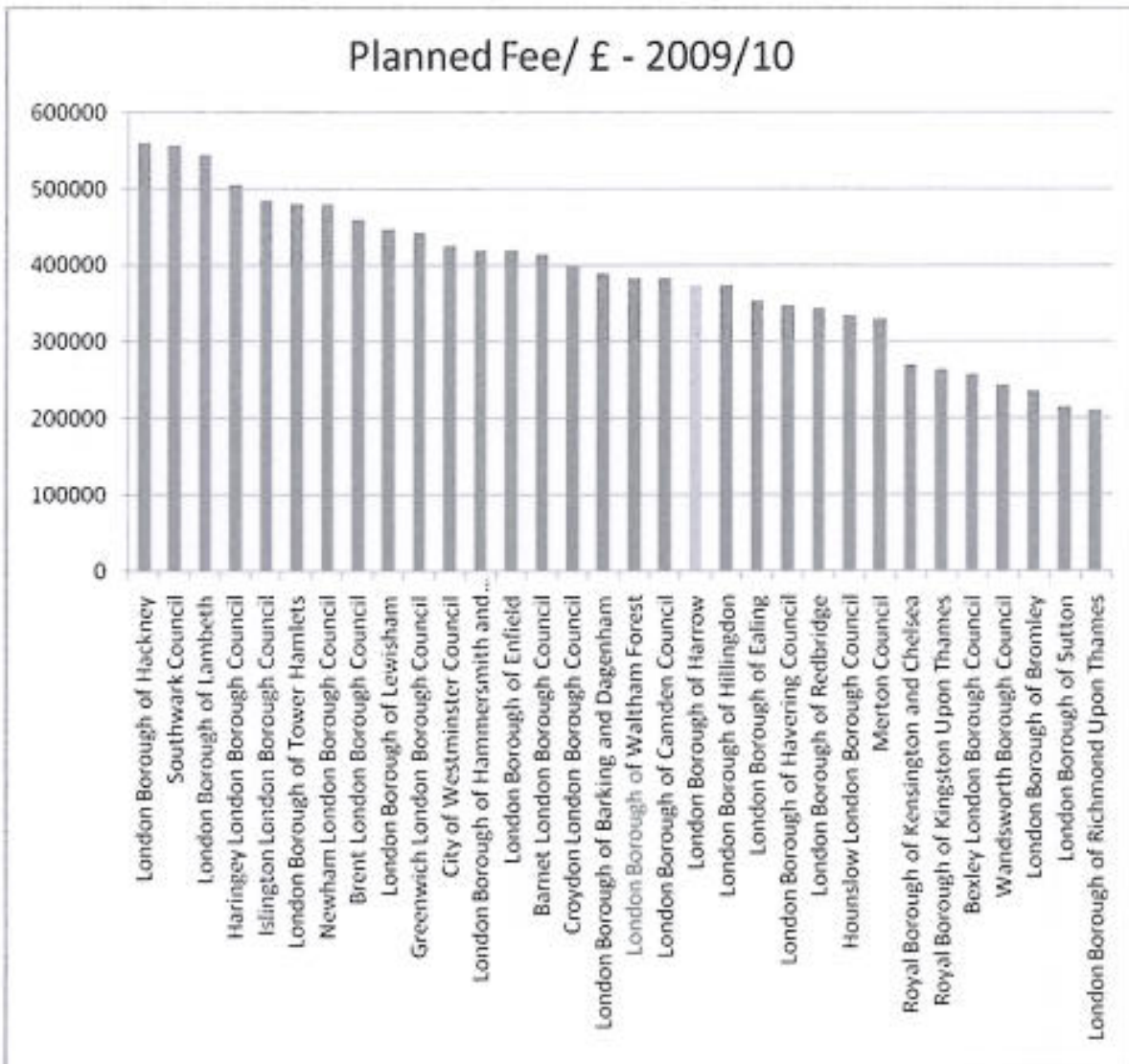
Yours sincerely



**Paul Schofield**  
**For Deloitte LLP**

**Appendix 1 – Fee comparison**

The following graph compares audit fees for Harrow with the 31 other London Boroughs for 2009-10. The highest fee is London Borough of Hackney at £560,000, the lowest is Richmond Upon Thames at £211,000.



Source: The Audit Commission Audit Fee Comparator

## Appendix 2 - Analysis of resources

The following table sets out the budgeted time for the 2010-11 audit from which we calculated our audit fee.

Grade	Days	Blended day rate (£)*	Fee (£)
Partner	12		
Director	20		
Senior manager	50		
Assistant manager	128		
Senior associate	125		
Associate	63		
Technical review	2.5		
	<b>400.5</b>	<b>£917</b>	<b>367,342</b>

The blended rate of £917 per day is the same blended rate as used in setting the 2009-10 audit fee.

The Commission has set a schedule of hourly rates for different levels of staff, for work relating to the certification of grant claims and returns. This is set out below:

Grade	£ per hour	£ per day*
Partner/district auditor	380	2,850
Senior manager/manager	210	1,575
Senior auditor	135	1,013
Other staff	105	788

These rates relate specifically to the audit of grants and are therefore only included for illustrative purposes. However we note that were we to apply these rates our blended day rate would be significantly higher than the actual proposed blended rate as set out above.

\* Based on 7.5 hour day