

By: John Simmonds, Cabinet Member for Finance
Lynda McMullan, Director of Finance

To: Governance and Audit Committee – 15 September 2010

Subject: **Audit Fees Update**

Classification: Unrestricted

Summary: This paper sets out the current position in relation to the Audit Commission fee for the 2010/11 financial year.

FOR INFORMATION

Introduction and background

1. At the June 2010 meeting of the Committee Members chose not to approve the Audit Commission proposed fee for 2010/2011. The detail of the decision is set out in the minutes , but in summary the committee chose:
 - not to agree the sum of £98,900 for the “Use of Resources/VFM Conclusion including data quality” audit area, and;
 - not to accept the proposed audit fee and asked the Director of Finance to seek to negotiate a greater reduction.
2. In line with the requirements of the Committee, Mrs McMullan has met with Mr Wells, the District Auditor, and discussed the level of the proposed fee. On the 9th August the Audit Commission also wrote to the Council setting out its proposals for fees as a result of the cessation of the Comprehensive Area Assessment (CAA) and Use of Resources (UoR) work. A copy of the letter is at appendix 1 for information and highlights the expected impact on fees of the demise of CAA and UoR. It anticipates a fee reduction on 2011/2012, but because of “uncertainties” around 2010/11 costs, the Audit Commission corporately “...cannot commit to a rebate of 2010/2011 audit fees at this time.”
3. The letter from the Audit Commission is largely silent on the subject of the work to deliver the opinion on the annual accounts, other than to highlight the rebate provided in respect on to mitigate the increases in audit fees arising from the transition to International Financial Reporting Standards (IFRS).
4. Subsequent to the discussions with Mrs McMullan the District Auditor has indicated that he is not in a position to reduce the proposed audit fee until Audit Commission central policy is clarified. The Audit Commission proposed fee therefore remains unchanged at £385,000. A further review of the Audit Commissions corporate position on fees has been scheduled for the September meeting of its Commission Board, and it is hoped that an update may be available in time for the Committee. However, a fuller update will be made at the November meeting of the Committee.

5. To date the Council has paid two monthly instalments (£35,000 each) to the Audit Commission based on the proposed fee. Mrs McMullan has stopped any further payments pending resolution of the fee level.

Recommendations

6. Members are asked to note the report.

David Tonks

Head of Audit and Risk

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From: Audit Commission [mailto:a-commission@audit-commission.gov.uk]
Sent: 09 August 2010 16:41
To: McMullan, Lynda - CED FIN
Subject: Change in approach to auditors' local value for money work



Dear Mrs McMullan

I wrote to you on 28 May to let you know that work on Comprehensive Area Assessment (CAA), including the use of resources assessment, was stopping immediately following a decision by the new government. I am writing now to update you on the new arrangements for auditors' work on value for money (VFM) relating to the 2010/11 accounts and future years.

New approach to local value for money audit work

The Commission will not be replacing the use of resources assessment. We are reducing auditors' VFM work and removing any requirement for a scored assessment. Auditors still have a continuing statutory responsibility, as set out in the Code of Audit Practice 2010, to give a conclusion on whether audited bodies have proper arrangements for securing VFM. Our aim is to focus this work on the auditor's core responsibilities and on local audit issues. We will also recognise the scale of the financial pressures for public bodies in the current economic climate.

We will introduce these changes for the 2010/11 accounts at single tier, county and district councils, and fire and rescue authorities. Auditors will give their statutory VFM conclusion on the arrangements to secure economy, efficiency and effectiveness based on two criteria, specified by the Commission, related to an audited body's arrangements for:

- securing financial resilience – focusing on whether the audited body is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how it secures economy, efficiency and effectiveness – focusing on whether the audited body is prioritising its resources within tighter budgets and improving productivity and efficiency.

Auditors will plan a local programme of VFM audit work based on their local audit risk assessment. They will report their VFM conclusion and the key messages from their work, including suggested areas for improvement, to the body's audit committee and in a clear and accessible annual audit letter. Auditors may qualify their VFM conclusion if they are not satisfied that the audited body has adequate arrangements in place.

For 2010/11, auditors of smaller bodies (such as larger town councils and national parks authorities) will continue to apply the current lighter touch approach to their VFM conclusion work.

Impact on audit fees

The new approach will mean a reduction in audit fees from 2011/12.

Appendix 1

For 2010/11, the Commission has already given a 6 per cent rebate this year to mitigate the increases in audit fees arising from the transition to IFRS. In May local authorities, and fire and rescue authorities received a cheque or credit note from the Commission. The rebates varied but the average was £7,000 for district councils, £16,500 for county councils and £25,000 for London borough councils. Fire and rescue authorities received £4,600. The total returned for local government bodies including fire and rescue authorities was almost £5 million.

We have a duty to ensure that the Commission has sufficient income in 2010/11 to meet its costs. There are uncertainties around some aspects of our 2010/11 costs, including the significant in-year transitional costs arising from the cessation of CAA. We therefore cannot commit to a rebate of 2010/11 audit fees at this time. The Commission Board will consider a rebate in September when considering audit fees for 2011/12.

Next steps

We will write to you again in September in the context of consulting on the 2011/12 work programme and scales of fees.

Yours sincerely,

Gareth Davies
Managing Director, Local Government, Housing and Community Safety