

17 May 2010

Mr David Cockburn  
Interim Head of Paid Service  
Kent County Council  
Sessions House  
Maidstone  
Kent ME14 1XQ

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Dear Mr Cockburn

### Annual Audit and Inspection Fee 2010/11

I am writing to confirm the audit and inspection work that we propose to undertake for the 2010/11 financial year at Kent County Council. This year we are setting out audit and inspection fees for you in one letter. Therefore this letter covers my audit responsibilities and those of Claire Bryce-Smith as Kent's Comprehensive Area Assessment Lead.

The fees are based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2010/11, and the assessment and inspection work required under the Comprehensive Area Assessment framework and associated guidance.

As I have not yet completed my audit for 2009/10, my risk assessment and audit planning for 2010/11 will continue as the year progresses. If I consider that this has an impact on the fees, I will discuss this with you. Claire will also continue to review the parts of the plan she is responsible for on the same basis and will discuss any significant changes with you.

A summary of the planned fee is shown in the table below:

<b>Audit area</b>	<b>Planned fee 2010/11 £</b>	<b>Planned fee 2009/10 £</b>
Financial statements	282,500	256,890
Use of Resources/VFM Conclusion Including data quality	98,900	117,280
Whole of Government Accounts	3,600	3,600
<b>Total audit fee</b>	<b>385,000</b>	<b>377,770</b>
Managing Performance element of the	18,293	18,293

<b>Audit area</b>	<b>Planned fee 2010/11 £</b>	<b>Planned fee 2009/10 £</b>
organisational assessment		
Joint Inspection with Ashford Borough Council on 'Managing Growth for All in Ashford' (TBC)	£12,000	
Certification of claims and returns (estimated)	24,600	25,000

The Audit Commission has published its work programme and scales of fees for 2010/11 which includes an increase of 6% in the expected audit fees arising from the introduction of International Financial Reporting Standards (IFRS). The Council's proposed audit fee for 2010/11 is 7.7% below scale fee. This compares with the 2009/10 audit fee which was at scale level.

Changes in International Auditing Standards have increased the audit procedures I need to carry out under my professional responsibilities. However, the Audit Commission has decided not to pass these on to audited bodies.

In setting the Council's audit fee, I have increased the resources directed to the audit of the financial statements recognising the increased work associated with the introduction of international financial reporting standards. I will issue a separate opinion plan for the audit of the financial statements by March 2011. This will detail the risks identified, planned audit procedures and any changes in fee. I will first discuss the opinion plan with the Director of Finance in the first instance and then present it to the Governance and Audit Committee.

While writing I would also inform you that in recognition of the financial pressures that public bodies are facing in the current economic climate, the Commission confirmed that it will subsidise the 'one-off' element of the cost of transition to International Financial Reporting Standards (IFRS) for local authorities, police and fire & rescue authorities from 2010/11. You will therefore receive a refund from the Audit Commission of £24,494 in April 2010.

For the purposes of setting this fee, I have assumed that my use of resources assessment will continue to be based on the key lines of enquiry as set out in the Audit Commission's work programme and scales of fees 2010/11 publication. These are:

- managing finances;
- governing the business; and
- managing resources.

At this stage, I have highlighted some potential risks in relation to my audit opinion and value for money conclusion that I will consider. For each risk, I consider the arrangements put in place by the Council to mitigate the risk and plan my work accordingly. My initial risk assessment for the financial statements and value for money conclusion is shown below:

<b>Risk area</b>	<b>Planned work</b>	<b>Timing of work</b>
<p>The 2010/11 financial statements will be produced in accordance with International Financial Reporting Standards (IFRS). The new standards will require additional disclosures and the restatement of both opening and closing balances in the 2009/10 accounts. Additional data may need to be collected in a number of areas and existing contracts and transactions reviewed to assess the implications for IFRS accounts. Clear evidence trails will be required to support the restated 2009/10 accounts and any new disclosure requirements in 2010/11.</p>	<p>We are already liaising with the Council's officers on progress with IFRS implementation. We will continue to monitor progress against the Council's project plan. We will also undertake specific work to 2009/10 comparative figures based on IFRS and review the treatment of any complex transactions.</p>	<p>April 2010 to June 2011</p>
<p>The Council needs to make significant financial savings in the future. If these are not made there is a risk that the Council's stated priorities will not be met.</p> <p>There is a likely impact on the structure of the council and staffing levels. There will be a need to ensure that the Council's governance arrangements including its internal control framework continue to be soundly based.</p> <p>Staff redundancies may be an element of restructuring. Any failure to follow due process in their administration can result increased administration and settlement costs</p>	<p>We will assess the robustness of the Council's overall management of its savings plans.</p> <p>We will work closely with Internal Audit to ensure that the Council's governance framework is effective.</p> <p>We will assess the administration of the Council's redundancy plans.</p>	<p>May 2010 – March 2011</p>
<p>The achievement of value for money by the Council might be reduced if it does not work with its partners effectively.</p>	<p>The Council and its partners are working together as part of the 'Total Place' initiative to secure better value for money. We will keep aware of this development and consider the impact for value for money for the Council.</p>	<p>July to March 2011</p>
<p>The Council has identified a risk of failing to adhere to EU procurement law which could result in legal action and penalties against it.</p>	<p>We will assess the Council's arrangements to mitigate this risk, including any relevant work by Internal Audit.</p>	<p>July to March 2011</p>

The quoted fee for grant certification work is an estimate only and will be charged at the Audit Commission's published rates.

The assessment and inspection fee relates to the managing performance element of the organisational assessment. This is the same for all county councils and has been published in the Commission's work programme for 2010/11. A joint regeneration inspection with Ashford Borough Council on 'Managing Growth for All in Ashford' has been included and relates to an identified risk around the delivery of the broad ambitions of the growth area. Area assessment work is grant funded and is not fee based.

I will issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 1. The organisational assessment for the Council incorporating use of resources and managing performance will be published on the Oneplace website and Claire will confirm the timetable for this once known.

The audit fee excludes any work the Commission may agree to undertake using its advice and assistance powers.

I will be supported in the delivery of the Council's 2010/11 audit by the following key members of my audit team:

Senior Audit Manager	Emily Hill	0844 798 2638
Audit Manager	Liz Robinson	0844 798 1377
Team Leader	Jeremy Jacobs	0844 798 6121
Local Performance Lead	Gordon Brown	0844 798 1355

I am 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 in the first instance. Alternatively you may wish to contact the South East Head of Operations, Neil Childs (n-childs@audit-commission.gov.uk).

Yours sincerely

Darren Wells  
District Auditor

cc Lynda McMullan, Director of Finance

## Appendix 1: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to members and/or published.

<b>Planned output</b>	<b>Indicative date</b>
Opinion audit plan	March 2011
Annual governance report	June 2011 (interim) September 2011 (final)
Auditor's report giving the opinion on the financial statements and value for money conclusion	July 2011
Annual audit letter	November 2011
Organisational assessment (incorporating the managing performance assessment and the use of resources assessment)	December 2010
Managing Growth for all in Ashford joint inspection report	December 2010