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To: Governance and Audit Committee – 30 November 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 (as set out in annex 1). After the June meeting discussions were held with local representatives from the Audit Commission, but no progress was made in reducing the proposed fee in line with the Committees request or gaining greater clarity around the element of the fee related to the now demised Use of Resources assessment.
2. At the September meeting of the Committee it was resolved that an invitation be extended to Mr Gareth Davies of the Audit Commission to meet the Chairman, Finance Director, Head of Audit and Risk and other Members of the Committee in order to more fully discuss the County Council's concerns.
3. As Mr Davies has changed roles, a meeting was arranged with Mr Martin Evans (Managing Director – Audit) and Marcine Waterman (Director of Audit Policy and Regulation) from the Audit Commission's central office, which is responsible for selecting the auditor of the Council and also for determining the annual "scale" fee for the work. Mr Wells, the District Auditor from the locally appointed team also attended. All Members of the Committee were also invited to the meeting.

Outcome of the meeting

4. The meeting allowed a frank and open exchange of views and the Audit Commission representatives were told very clearly the Committee's position in relation to the fee. Although understanding this position, Mr Evans and Ms Waterman were not willing to agree any reduction to the core fee. Mr Evans affirmed that auditors have to give a VFM conclusion against two criteria:
 - the organisation has proper arrangements in place for securing financial resilience; and
 - the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.
5. Mr Wells has to design a programme of work to address these criteria. He will provide an update on this at the meeting.

5. Mr Evans explained that the fee, determined in an annual fee strategy, is set at a level that allows for the work that auditors need to carry out to meet their statutory responsibilities under the Audit Commission Act. This “scale” fee can be varied by the local District Auditor within certain tolerances, and for 2010/2011 the Council fee has been set at 7.7% below scale fee. Although referred to as a fee, Mr Evans did clarify that the amount paid by the Council was actually a levy to support the work of the Audit Commission, and must be paid under law.
6. In relation to the VfM / UoR work, Mr Evans agreed that there would be an element of overcharge as some of the work required when the fee levels were set would now not be required. It is the intention of the Audit Commission to provide a rebate to the Council in relation to the work for the 2010/2011 fee, and a greater level of rebate in 2011/12. The complicating factor is that following the announcement of the Audit Commission’s demise, any actions that have a major impact on their finances are subject to discussion (and implied approval) from CLG. During discussion, Mr Evans also pointed out that Mr Wells’ planned input for the VFM conclusion at 25 per cent of the total audit fee, is less than the average across the country.
7. It is likely that greater clarity will become available following discussions between the Audit Commission and CLG about the proposed rebate, but this will not be available until early December.

Conclusion

8. Overall it is unlikely that the Council will be able to obtain a significant fee reduction for the core audit of the financial statements since:
 - it is already below that determined centrally by the Audit Commission as being required, and;
 - the only means of appealing against the fee is to the Audit Commission.
9. The Audit Commission has already indicated that there may be a rebate on the fee element relating to VfM / UoR. It is sensible to assess the size of this rebate when compared to the level of work that the District Auditor will identify in order to deliver his statutory opinion on the Council’s VfM.

Recommendations

10. Members are asked to:
 - Agree those elements of the proposed fee where the scope of the work is more certain (i.e. Financial statements, whole of government accounts), a total of £286,100, or 74% of the proposed fee
 - Decide whether or not to refer the auditor’s proposed fee to the Audit Commission for determination at the next meeting of the Committee.

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