

12 April 2010

Mr D Hughes  
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Dear David

## 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 Tonbridge & Malling Borough Council. The fee is 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. For inspection, it is based on the Comprehensive Area Assessment (CAA) framework and associated guidance. This is the responsibility of Claire Bryce-Smith, the CAA Lead, and I have consulted with her on this element of the proposal.

As I have not yet completed my audit for 2009/10, the audit planning process for 2010/11, including the risk assessment, will continue as the year progresses and I will review and discuss my plans and fee proposals with you as necessary. The inspection plan will also be reviewed and updated as necessary by Claire in discussion with you.

### Audit fee

We propose an indicative fee for the audit for 2010/11 of £105,500 which compares to our planned fee for 2009/10 of £96,600. A summary of this is shown in the table below.

<b>Audit fee</b>	<b>Planned fee 2010/11 (£)</b>	<b>Planned fee 2009/10 (£)</b>
Financial statements	75,650	66,850
Use of Resources/VFM Conclusion	27,650	27,650
Whole of Government Accounts	2,200	2,100
<b>Gross audit fee</b>	<b>105,500</b>	<b>96,600</b>

We have set our fees within the context of the Audit Commission's published work programme and scales of fees 2010/11. A copy of this document can be found on the Audit Commission's website. For comparison, the scale audit fee for Tonbridge & Malling Borough Council is £117,317. The gross fee proposed for 2010/11 is 10 per cent below the scale fee (2009/10: 10 per cent below the scale fee).

In setting the fee at this level, I have assumed that the general level of risk in relation to the audit of the financial statements will not be significantly different from that identified in 2009/10. I will issue a separate plan for the audit of the financial statements once my work is further advanced detailing audit risks identified at that stage, planned audit procedures and any changes in fee. If I need to make any amendments to the audit fee during the course of the audit, these will be discussed initially with the Director of Finance and reported to the Audit Committee.

The following are the key additional accounts risks which we have identified for 2010/11:

### **Audit of the accounts**

<b>Specific risks for 2010/11</b>	<b>Planned work</b>	<b>Timing of work</b>
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.	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 review the restated opening and closing balances for 2009/10 and to review the treatment of any complex transactions.	April 2010 – June 2011
The Council has a deposit of £1m with Landsbanki, which was taken into the ownership of the Icelandic government in October 2008. The valuation of this deposit currently reflects an impairment calculated in accordance with CIPFA guidance. This valuation will need to be kept under review pending any final decision on the level of recovery.	We will continue to monitor the valuation of this investment and discuss any relevant issues with officers.	April 2010 – June 2011

The implementation of IFRS will result in a number of significant and complex changes to the Council's accounting policies and to the format of its accounts. The work programme published by the Commission signalled a 6% increase from the previous year to take account of additional audit work arising from IFRS and this is reflected in my proposal. The Audit Commission's Chief Executive set out further background to this in his letter to you of 5 February 2010.

In terms of this significant change to your accounting framework, I would like to take this opportunity to remind you that those charged with governance within the Council are responsible for ensuring you are prepared for the introduction of IFRSs. Although I do not have direct audit responsibilities in respect of balances at the transition date these do form the opening balances for the comparative period. I will therefore consider your risk assessment process and gap analysis to inform my ongoing risk assessment.

In recognition of the financial pressures that public bodies are facing in the current economic climate, the Audit Commission has decided that it should rebate the 'one-off' element of the cost of transition to IFRS that will arise in 2010/11, the year of transition. For Tonbridge & Malling Borough Council this rebate will amount to **£6,812** and is due to be paid to the Council in April 2010. Changes in international auditing standards for 2010/11 will also increase the audit procedures I need to carry out. However, the Audit Commission has agreed to fully absorb the cost of these additional requirements within the fee.

### **Use of resources assessment**

My use of resources assessments will be based upon the evidence from three themes: managing finances, governing the business and managing resources.

The key lines of enquiry specified for the assessment are set out in the Audit Commission's work programme and scales of fees 2010/11. My work on use of resources informs my 2010/11 value for money conclusion. However, I have identified some early risks in relation to my value for money conclusion. For each risk, I will consider the arrangements put in place by the Council to mitigate the risk, and plan my work accordingly. My initial risk assessment for value for money audit work is shown in the table below.

<b>Risk</b>	<b>Planned work</b>	<b>Timing of work</b>
Going forward the Council may face very significant financial pressures due to anticipated reductions in central government funding and the ongoing impact of the recession. We will need to consider the impact of these pressures on the Council's financial position and more generally on its ability to manage its resources efficiently and effectively.	We are currently planning to review relevant issues as part of our 2010/11 use of resources assessment.	April 2010 – April 2011



**cc** Sharon Shelton, Director of Finance

## Appendix 1 – Planned outputs

Reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

**Table 1** Planned outputs

<b>Planned output</b>	<b>Indicative date</b>
Updated opinion risk assessment	April 2011
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2011
WGA auditor's report	September 2011
Annual governance report (final version)	October 2011
Final accounts memorandum (if separate memorandum required)	October 2011
Organisational assessment (incorporating the managing performance assessment and the use of resources assessment)	TBA
Annual Audit Letter	December 2011
Certification of claims and returns – annual report	February 2012