



Accountants &  
business advisers

Rob Tinlin  
Chief Executive  
Southend-on-Sea Borough Council  
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Victoria Avenue  
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Our ref: 4008711/2010-11/DE/AB

29 April 2010

Dear Rob

### Annual Audit Fee 2010/11

Further to our discussions with the Council, we are writing to confirm the audit work that we propose to undertake for the 2010/11 financial year at Southend-on-Sea 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
- reflects only the audit element of our work, and specifically excludes any inspection and assessment fees. Your Comprehensive Area Assessment Lead has written to you separately on these fees on behalf of the other inspectorates.

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. **The total indicative fee for the audit for 2010/11 is £350,650** which compares to the planned fee of £361,000 for 2009/10 and the actual fee of £392,628 for 2008/09. A summary of the fee is shown in the table overleaf.

The audit fee for 2010/11 includes costs for the introduction of International Financial Reporting Standards (IFRS). The Audit Commission has suggested that audit fees should increase by 6% to reflect the additional work required. However, we have contained this increase, and provided you with net reduction, by reflecting a reduced need for risk-based work consequent upon the continuing improvement in performance of the Council and also in the resource necessary to undertake the second year of Use of Resources assessments. In addition to this, in recognition of the financial pressures that public bodies are facing in the current economic climate, **the Audit Commission will subsidise the Council** by refunding a sum of £17,663 in connection with IFRS transition, **reducing the net costs to the Council to £332,987**, which represents **a reduction of 7.8%**.

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Our fee at this stage is based on Audit Commission guidance and does not reflect any detailed planning of the actual resource necessary to undertake the audit of the restated prior year (2009/10) accounts or of the additional work necessary to support the 2010/11 audit. We will monitor this position and report to officers and to the Audit Committee as work progresses.

<b>Audit area</b>	<b>Planned fee 2010/11</b>	<b>Planned fee 2009/10</b>	<b>Actual fee 2008/09</b>
Planning & Reporting	101,500	109,000	108,000
Financial statements under IFRS, including WGA	188,800	166,000	163,000
Use of Resources / VFM Conclusion [including risk based work]	60,350	86,000	109,000
Complaints / Objections	-	-	12,628
<b>Total Code audit fee</b>	<b>£350,650</b>	<b>£361,000</b>	<b>£392,628</b>
Certification of claims and returns	£83,000 <sup>1</sup>	£83,000 <sup>2</sup>	£78,211 <sup>3</sup>

Your audit fee will be billed as follows:

<b>Month</b>	<b>£</b>
June 2010	60,000
September 2010	40,000
December 2010	50,000
March 2011	80,000
June 2011	60,000
September 2011	60,650
<b>Total</b>	<b>£350,650</b>

The audit fee excludes any additional improvement work we may separately agree to undertake. Each piece of work would be separately negotiated and a detailed project specification agreed with you.

### **Accounts audit**

Our fee at this stage is based on Audit Commission guidance. It does not reflect any detailed planning of the actual resource necessary to undertake the audit of the restated IFRS prior year (2009/10) accounts or of the additional work necessary to support the 2010/11 audit. We will monitor this position and report to officers and the Audit Committee as work progresses.

With the exception of the introduction of IFRS, in setting the fee at this level, we have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10.

<sup>1</sup> Estimated fee for year ended 31 March 2011

<sup>2</sup> Estimated fee for year ended 31 March 2010

<sup>3</sup> Actual fee for year ended 31 March 2009

A separate, more detailed plan for the audit of the financial statements will be issued in December 2010. This will set out the significant risks identified, planned audit procedures to respond to those risks and any changes in fee. If we need to make any significant amendments to the audit fee during the course of the audit, we will first discuss this with the Head of Finance and Resources and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

### Value for money

The 2010/11 use of resources fee includes the cost of the use of resources assessment currently in progress on the arrangements in place throughout the 2009/10 financial year. We have assumed that the resource input can be reduced, compared to the 2008/09 use of resources assessment, as we now have a baseline of evidence in place for the majority of Key Lines of Enquiry (KLOEs) subject to review (with KLOE 3.3 "Workforce development" being the exception).

Our use of resources assessments will continue to be based upon the evidence from three themes:

- Managing finances
- Governing the business
- 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 and this work on Use of Resources informs our 2009/10 value for money conclusion.

The guidance relating to data quality spot check work has been revised for the assessment to be undertaken during 2010. The benefits work that feeds into our assessment of KLOE 2.2 will now be based on management arrangements in place during 2009/10 for benefits data quality and the outcome of our certification work on the 2008/09 Benefits grant claim. We still need to undertake our review of benefits data quality, so the resource input and fee is not reduced, but it will now feed into the Use of Resources assessment undertaken during 2011. Links to wider certification work have also been added to the Use of Resources guidance to raise the profile of certification work.

The Audit Commission is currently consulting on a fundamental review of its current approach to local value for money audit work, including use of resources, with a view to making changes with effect from 2010/11. Any change will feed into the work programme for 2011/12 and the audit fee charged in that year.

We have identified a number of local risk issues in relation to our value for money conclusion for 2010/11. For each issue, we consider the arrangements put in place by the Council to mitigate the potential risk, and plan our work accordingly. Our initial assessment of indicative key risks in relation to value for money audit work is shown below:

Indicative key risk	Planned work	Timing of work
<p><b><i>Joint Financing of Social Services:</i></b></p> <p>PCTs are being encouraged to work even more closely with social services to commission and deliver integrated care for their communities, particularly for elderly people, to improve services and make savings.</p>	<p>We will review the Councils arrangements to manage the Joint Financing of Social Services and any further plans to pool resources to ensure that targets are addressed.</p>	<p>Sept 2010-March 2011</p>

Indicative key risk	Planned work	Timing of work
<p><b><i>Transfer of funding for 16-19 year olds from the Learning and Skills Council to Local Government:</i></b></p> <p>From 2010 Local Authorities will have a statutory duty to provide / commission learning places for pre 19 year olds.</p> <p>There is a risk that insufficient controls and arrangements could be put in place to manage and account for the new resources.</p>	<p>We will review the Council's arrangements to manage these new responsibilities.</p>	<p>Sept 2010-March 2011</p>
<p><b><i>Delivering Excellence Transformation project:</i></b></p> <p>The Council's commitment to being an Excellent Organisation, and reflecting the future financial challenges resulting from the current economic climate, has initiated a programme to transform the way services are delivered.</p> <p>The aim is to achieve savings whilst increasing efficiencies and improve service delivery to the public.</p>	<p>We will review the Council's arrangements to manage the Delivering Excellence Transformation project to establish how the Council is going to manage the delivery of targets set for achievement.</p>	<p>Sept 2010-March 2011</p>

We will issue a separate project specification for the reviews above before beginning the work.

#### **Other indicative risks that we plan to monitor**

In addition to the key risks identified above, our risk assessment also identified risk factors that, whilst not significant, we intend to maintain an ongoing review of during the course of the year. These are currently not significant issues, although they may become so as circumstances change:

- The financial position of the Council has continued to come under increasing pressures as a result of the impact of the economic downturn and expected reductions in government funding. There is a risk that the Council will not put in place robust plans to manage funding shortfalls.
- Consultation is currently underway by the CLG with respect to removing the current Housing Revenue Account subsidy system and replacing this with a localised system.
- The Accommodation Strategy and the challenges faced by the Council in managing the potential disruption caused by the movement of departments to ensure that this does not impact on the delivery of services.
- The review of arrangements for controlling Members Allowances and expenses that is being undertaken.

## Indicative accounts risks

As explained above, we will issue a more detailed Audit Plan in December 2010 setting out accounts risks identified by our Auditing Standards-driven assessment undertaken after we complete the audit of the 2009/10 accounts. However, at this stage we set out below our anticipated work in respect of the risk area associated with the transition to International Financial Reporting Standards (IFRS).

Indicative risk	Planned work	Timing of work
International Financial Reporting Standards (IFRS) will be adopted in local government from 2010/11 and will also require restatement of prior year comparative figures. There is a risk around transitional arrangements and preparation of the accounts in compliance with IFRS.	<p>We will monitor the Council's progress against implementation of their IFRS plan and management's transition arrangements, with particular audit emphasis on the following:</p> <ul style="list-style-type: none"><li>• Review of service arrangements against IFRIC 12 (service concessions)</li><li>• Review of arrangements against IFRIC 4 (lease arrangements)</li><li>• Consideration of leasing arrangements against IAS 17 (Leases)</li><li>• Review of valuation policies and component accounting for assets under IAS 16 (Property, plant and equipment)</li><li>• Calculation of employee benefits under IAS 19 (Employee benefits)</li><li>• Review of government grants in light of CIPFA's decision to apply IPSAS 23</li><li>• Review of group accounting requirements under IFRS which focuses on ability to control as opposed to actual control.</li></ul> <p>Additional detailed audit procedures will also be required in the restatement exercise of comparative balances for year ended 31 March 2009 and 31 March 2010.</p>	April 2010 – March 2011

We will issue a number of reports relating to our work over the course of the audit. These are listed in the Appendix to this letter.

The key members of the audit team for the 2010/11 are:

- Engagement Lead      David Eagles      01473 320728
- Senior Manager      Andrew Barnes      01473 320745
- Assistant Manager      Clare Beesley      01473 320781
- Supervisor      Liana Hine      01473 320715

We are 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 David Eagles in the first instance. Alternatively, you may wish to contact our Managing Partner, Martin Goodchild. Any complaint will be investigated carefully and promptly. If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales ("ICAEW").

Yours sincerely



**David Eagles**  
Partner  
PKF (UK) LLP

cc Corporate Director Support Services  
cc Head of Finance and Resources  
cc Chair of the Audit Committee

## Appendix: Planned Outputs

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

<b>Planned output</b>	<b>Indicative date</b>
Audit plan	December 2010
Report to those charged with governance, including the draft opinion on the financial statements and draft value for money conclusion	September 2011
Use of resources assessment report	October 2010
Local risk reports	November 2010 to March 2011
Annual Audit Letter	November 2011
Report on certification of grants claims	February 2011