

16 June 2009

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— Dear Joanna,

## **Annual audit fee 2009/10**

Further to my letter of 2 April 2009, your reply dated 2 June 2009, and our subsequent meeting yesterday afternoon, I am writing to confirm the audit work that we propose to undertake for the 2009/10 financial year at Essex County 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 2009/10; and
- reflects only the audit element of our work, excluding any inspection and assessment fees. Ian Davidson, as Comprehensive Area Assessment Lead for Essex, has written to you separately on inspection fees.

As I have not yet completed my audit for 2008/09 the audit planning process for 2009/10, 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 2009/10 is for £404,380 (exclusive of VAT) which compares to the planned fee of £399,380 for 2008/09. A summary of this is shown in the table below.

### **Audit fee**

<b>Audit area</b>	<b>Planned fee 2009/10</b>	<b>Planned fee 2008/09</b>
Financial statements	247,780	240,810
Use of Resources/VFM Conclusion (including risk based work)	151,880	153,910
WGA	4,720	4,660
<b>Total audit fee</b>	<b>404,380</b>	<b>399,380</b>

Certification of claims and returns (estimate)	34,500	33,000
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The Audit Commission has published its work programme and scales of fees 2009/10. The scale fee for Essex County Council is £361,660. The fee proposed for 2009/10 is 11.8 per cent above 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 is not significantly different from that identified for 2008/09. A separate plan for the audit of the financial statements will be issued in December 2009. This will detail the risks identified, planned audit procedures and any changes in fee. The quoted fee for grant certification work is an estimate only and will be charged at published daily rates. If I need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with the Director of Finance and then prepare a report outlining the reasons why the fee needs to change for discussion with the audit committee.

In your letter of 2 June you raised the question of the level of fees for 2009/10 in comparison to 2008/09. At our discussion yesterday I mentioned that the inspection fee letter had set out a proposed fee of £18,293 for the managing performance theme of organisational assessment. What the letter did not set out was the 2008/09 fee of the equivalent piece of work, the Direction of Travel Assessment, which was £16,420. These figures are the standard amounts contained, respectively, in the Audit Commission's work programme and scale of fees 2009/10 and the equivalent publication for 2008/09. This means that the overall increase between 2008/09 and 2009/10 for the total audit fee, pension fund and inspection fee combined is approximately 1.6%.

In respect of our liaison with the Council's Internal Audit Service, our more detailed plan for the audit of the 2009/10 financial statements to be issued in December 2009 will be more explicit about how we ensure an effective relationship with Internal Audit. What I can say is that we do work closely with Internal Audit and our aim is to place maximum reliance on their work wherever possible. We meet the Head of Internal Audit on a bi-monthly basis with additional meetings at audit manager level in the interim. We exchange plans and will do the same with our detailed plan later in the year. We consider each Internal Audit Report issued but where controls are found not to be working effectively in material financial systems we are required to obtain assurance from additional substantive testing. Our aim is to support the Council improve controls in the main financial systems so that we can place more reliance on internal audit and consequently reduce our substantive testing.

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 2009/10. My work on use of resources informs my 2009/10 value for money conclusion. However, I have identified a number of significant risks in relation to my value for money conclusion. 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 value for money audit work is shown in the table below:

Risk	Planned work	Timing of work
The Council has recently advertised for a private sector contractor to provide 'some or all' of its services. An 'in principle' decision is scheduled to be taken by Cabinet in June 2009. There is a risk that the Council's procurement and contract management processes do not address all the risks involved and do not achieve maximum value for money.	We will review the Council's contract management processes for these new, high value contract(s). This will be funded from the 2008/09 plan replacing other work that has not been completed in agreement with the Council.	Early 2010
The Council has recently issued an early contract termination notice to its private sector partner for the provision of IT services. There is a risk to current IT services and a planning blight to future IT developments.	We will review the Council's management arrangements in the run up to contract termination, focussing on business continuity, and the plans for the management of IT post contract termination.	May 2009- February 2010
The Council is increasingly reliant on effective partnerships to meet its key priorities. There is a risk that governance, accountability and performance management of partnerships is not as effective as those arrangements within the Council.	We will review the Council's arrangements for partnerships and how effective they are in helping to deliver the Council's objectives. We will discuss and agree the precise scope of the review with the Council where the maximum benefit can be achieved.	January – March 2010

<p>The Council is involved with a Building Schools for the Future PFI scheme. There are significant risks involved with any such scheme including financial planning, future projections and value for money.</p>	<p>We will review the Council's approach to this scheme and how the risks are being managed.</p>	<p>September 2009-March 2010</p>
<p>The Council is taking a number of innovative initiatives in response to the current economic climate. There is a risk that such schemes go beyond the Council's legal powers or do not represent value for money.</p>	<p>We will review each scheme individually. This work is already ongoing and will also be considered as part of Use of Resources.</p>	<p>Ongoing.</p>
<p>A number of significant controls within the Council's material financial systems are not operating effectively, including the controls over authorised signatories in payroll and the ability to add new suppliers to the accounts payable system. Although the Council has good counter fraud arrangements in place, the absence of these controls increases the risk of fraud.</p>	<p>We will use the Audit Commission Tool 'Changing Organisational Cultures' to assess the risk using a web based tool to survey members of staff in many areas across the Council. These results will be compared with other similar Councils and can be followed up with workshops in relevant areas. This review was originally contained in the agreed 2008/09 Audit and Inspection Plan but deferred at the request of the Council.</p>	<p>Autumn 2009</p>
<p>There is a risk that the County may not implement the agreed recommendations from the health inequalities cross cutting review in 2008.</p>	<p>We will review progress against the agreed action plan and the effectiveness of partnership working in addressing this key priority for the Council and many other public sector bodies in Essex.</p>	<p>Early 2010</p>

I will issue a separate project specifications for risk based use of resources reviews before beginning the work.

I will issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 1.

The above fee excludes any work requested by you that the Commission may agree to undertake using its advice and assistance powers. Each piece of work will be separately negotiated and a detailed project specification agreed with you.

The key members of the audit team for the 2009/10 are:

Corporate Area Assessment Lead - Ian Davidson

Audit Managers – Louise Wishart                      07813 038599

Natalie Huber                      0844 798 2641

Team Leaders – Ellen Davis                      0844 798 5544

Helen Edwards                      0844 798 3011

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 Eastern Region Acting Head of Operations, Andy Perrin ([a-perrin@audit-commission.gov.uk](mailto:a-perrin@audit-commission.gov.uk)).

Yours sincerely



Paul King  
*District Auditor*

cc     Nick Bell, Deputy Chief Executive & Executive Director for Finance  
       Margaret Lee, Chief Financial Officer  
       Cajetan Chukwulozie, Head of Internal Audit

## Appendix 1: Planned outputs

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

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**Table 1**

<b>Planned output</b>	<b>Indicative date</b>
Audit plan	December 2009
Review of outsourcing and contract management arrangements	Early 2010
Review of IT Services, focussing on business continuity	October 2009
Review of Partnerships	Early 2010
Health Inequalities follow up	March 2010
Control and Systems Report	June 2010
Annual governance report	September 2010
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2010
Opinion on the Whole of Government Accounts Return	October 2010
Changing Organisational Cultures	Autumn 2009
Use of resources report	November 2010
Final accounts memorandum (to the Director of Finance)	October 2010
Annual audit letter	November 2010