

23 April 2010

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Essex

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Dear Joanna

Annual Audit Fee 2010/11

Further to my discussions with your officers, I am writing to confirm the audit work that we propose to undertake for the 2010/11 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 Commission for 2010/11; and
- reflects only the audit element of our work, excluding any inspection and assessment fees. Your Audit Commission Comprehensive Area Assessment Lead will be writing to you separately on these fees.

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 fees will be reviewed and updated as necessary.

The total indicative fee for the audit for 2010/11 is for £404,890, which compares to the planned fee of £404,380 for 2009/10. A summary of this is shown in the table below.

Audit Fee

Audit area	Planned fee 2010/11	Planned fee 2009/10
Financial statements	£263,500	£247,780
Use of Resources/VFM Conclusion (including risk based work)	£141,390	£151,880
WGA	£4,720	£4,720
Total audit fee	£404,890	£404,380
Certification of claims and returns (estimate only based on 2008/09)	£59,000	£58,000

The Audit Commission has published its work programme and scales of fees 2010/11. The scale fee for Essex County Council is £383,970. The fee proposed for 2010/11 is 5.45 per cent above the scale fee and is within the normal level of variation specified by the Commission.

The increase in fee for the financial statements element of the audit is largely due to the costs of additional audit work arising from the introduction of International Financial Reporting Standards (IFRS). Changes in international auditing standards will increase the audit procedures I need to carry out, however the Audit Commission will absorb the cost of these additional requirements within the fee.

The published fee scale for 2010/11 included a 6% increase to cover the costs of additional audit work arising from the introduction of International Reporting Standards. In July 2009, in recognition of the financial pressures that public bodies are facing in the current economic climate, the Commission confirmed that it would subsidise the 'one-off' element of the cost of transition to International Financial Reporting Standards (IFRS) for local authorities and police and fire and rescue authorities from 2010/11. You will therefore receive a refund from the Audit Commission of £23,193 in April 2010.

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 2009/10. A separate opinion plan for the audit of the financial statements will be issued after December 2010 if necessary. 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 Chief Financial Officer and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

My use of resources assessments will be based upon the evidence from three themes:

- Managing finances;
- Governing the business; and
- Managing resources.

I am currently undertaking a review of the Council's use of resources for 2009/10 which, in line with established charging arrangements, will be funded from the 2010/11 fee. The results of the audit will inform my planning for 2010/11. At this stage, I have three significant risks in relation to the value for money conclusion, but will need to update my audit plan and indicate any impact on audit fees after December 2010. However, I draw to your attention the risks identified to date, which I will monitor as the year progresses, in the table below:

Risk	Planned work	Timing of work
The Council has identified that its governance culture needs to change for both members and officers.	<p>As part of the 2009/10 audit plan we are working with the Council to deliver our Ethical Governance Audit Tool. We will follow up progress on this in 2010/11.</p> <p>We will also deliver the Changing Organisational Cultures toolkit which includes a staff survey and follow up to assess the impact on staff of the changes the Council is making to its governance arrangements.</p>	<p>Follow up of 2009/10 Ethical Governance April 2011.</p> <p>Changing Organisational Cultures to be confirmed following agreement with the Council.</p>
The Council is undertaking a transformation programme with ambitious savings plans.	<p>As part of the 2009/10 audit plan we are reviewing the transformation programme and we will need to consider the findings of this work before deciding if further work is necessary for 2010/11.</p> <p>We are looking at the Council's 2010/11 budget savings as part of the Use of Resources work currently underway.</p>	<p>March- April 2010 for Use of Resources</p> <p>Follow up of transformation programme to be confirmed depending on findings in 2009/10.</p>
The Council changed its arrangement for IT services significantly in 2009/10. Our review identified risks with the new arrangements that need to be followed up.	We have reviewed the risks on IT arrangements, including business continuity. We will follow up our findings and the Council's progress against the agreed action plan.	June- September 2010

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 work 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 2010/11 audit are:

Audit Managers- Louise Wishart 0844 798 3006

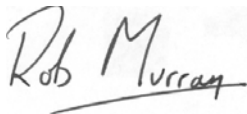
- Natalie Thoms 0844 798 2641

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 Head of Operations, Eastern sub-region, Andy Perrin (a-perrin@audit-commission.gov.uk).

Yours sincerely

A handwritten signature in black ink that reads "Rob Murray". The signature is written in a cursive style with a horizontal line underneath the name.

Rob Murray
District Auditor

Appendix 1: Planned outputs

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

Table 1

Planned output	Indicative date
Use of Resources- arrangements for 2009/10	Informal feedback April/ May 2010 and final report October 2010
Follow up of 2009/10 review of IT risks	October 2010
Audit opinion plan	March 2011
Changing Organisational Cultures	to be agreed with Council
Ethical Governance Follow up	May/ June 2011
Annual governance report	September 2011
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2011
Final accounts memorandum (to the Head of Finance)	October 2011
Annual audit letter	to be confirmed