

# CHESHIRE EAST COUNCIL

## Governance and Constitution Committee

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**Date of Meeting:** 25 June 2009  
**Report of:** Borough Treasurer & Head of Assets  
**Subject/Title:** Audit Commission Audit Fee 2009/10

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### **1.0 Report Summary**

- 1.1 This report presents to Members the Audit Commission's draft Cheshire East Audit fee letter for 2009/10. The letter which is attached at Appendix 1 sets out the proposed audit work for the 2009/10 and the associated fee.

Representatives from the Audit Commission will attend the meeting to present their proposal and answer questions.

### **2.0 Recommendations**

- 2.1 That the Audit Commission's audit fees letter for 2009/10 be received and the proposed work programme, indicative fee and associated budgetary implications be noted.

### **3.0 Reasons for Recommendations**

- 3.1 The Audit fee letter is required to be presented and received by those in the organisation charged with Governance. The relevant Committees for this purpose is the Governance & Constitution Committee.

### **4.0 Wards Affected**

- 4.1 Not applicable.

### **5.0 Local Ward Members**

- 5.1 Not applicable.

### **6.0 Policy Implications including - Climate change - Health**

- 6.1 Not applicable.

### **7.0 Financial Implications for Transition Costs (Authorised by the Borough Treasurer)**

- 7.1 No transitional cost issues, as the fees quoted relate to 2009/10 financial year.

## **8.0 Financial Implications 2009/10 and beyond (Authorised by the Borough Treasurer)**

- 8.1 The proposed audit fee for 2009/10 is £401,925 (exclusive of VAT). This is based on the Audit Commission's national fee rate with an uplift of 15% to reflect the perceived risks likely to impact the 2009/10 accounts. These are detailed on page 2 of Appendix 1. The risk scale ranges from nil to 30% uplift.
- 8.2 The base budget for audit fees, inherited from the predecessor councils, totals £299,557 after taking into account an assumed saving of £143,000 which was included in the People and Places business case.
- 8.3 This level of saving was deemed reasonable given the rationalisation from four sets of accounts (County Council and three district Councils) to one, and the consolidation to a single financial system and control framework. It also reflected the relative financial strength of the predecessor councils and a good track record on financial stewardship and financial reporting.
- 8.4 The fee level proposed is clearly in excess of that anticipated at the time when the 2009/10 budget was set. The Audit Commission has however, indicated that the fee will be reviewed throughout the year as their risk assessment is updated and refined. There is scope therefore, to mitigate the potential budget shortfall and Members will be updated accordingly.
- 8.5 There is a risk that the fee could be higher than the figure quoted if the Audit Commission has to undertake additional work over and above that identified, or the council requests additional advice or assistance. In either case, the Governance & Constitution Committee will be consulted before the fee is revised.

## **9.0 Legal Implications (Authorised by the Borough Solicitor)**

- 9.1 No significant legal issues. There is a statutory requirement for audited bodies to meet the fees specified by the Audit Commission.

## **10.0 Risk Management**

- 10.1 The quoted audit fee for 2009/10 exceeds the budget provision by £102,368. This overspend would fall to be met from council balances as there is no contingency provision to cover the additional costs.
- 10.2 This represents the maximum risk, or worst case scenario. If the risks identified by the Audit Commission can be addressed satisfactorily during the year, then there is potential to eliminate some, or all of the 15% risk element of the fee. This would reduce the potential overspend by up to £52,425.
- 10.3 A programme of regular liaison meetings between senior finance officers and the Audit Commission has been established to keep the identified risk issues under review.

The following specific action is already in hand:-

- Balance Sheet Disaggregation Working Group established, comprising the S151 and deputy S151 officers, from both Cheshire East and Cheshire West & Chester, to oversee the disaggregation and transfer of the former County Council balances.
- Planned programme of quarterly out-turn monitoring and reporting being established to provide oversight of 2009-10 budget delivery.
- Close working relationships established between senior finance officers of all four predecessor councils, to ensure maximum continuity and skills transfer.

## **11.0 Background and Options**

- 11.1 The Cheshire East draft Audit fee letter is attached at Appendix 1. This sets out the audit work to be undertaken during the year in relation to the financial statements, the Use of Resources assessment and Value for Money conclusion (which forms part of the Comprehensive Area Assessment) and certification of grant claims and returns. Grant claims work is billed separately on a daily rate basis and does not form part of the audit fee quoted above.
- 11.2 As indicated in 9.1 above, audited bodies are required by statute to meet the cost of audit as specified by the appointed auditors, and the associated charges are therefore unavoidable. There is scope however, to reduce the level of fee through adopting a risk management approach as indicated in 10.1 and 10.2 above.

## **12.0 Overview of Year One and Term One Issues**

- 12.1 The implications for year one are outlined above. The current fee level for subsequent years will be subject to annual review and notified at the start of each financial year. As the new Council becomes established and its systems and processes proven, the inherent risks associated with transition and year one operation should reduce, allowing some potential saving against 2009/10 fee levels.

## **13.0 Access to Information**

The background papers relating to this report can be inspected by contacting the report writer:

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**Our reference** 20092604 Chester East Fees letter

26 April 2009

Lisa Quinn  
Director of Finance  
Cheshire East Council

**Direct line** 08447987300  
**Email** j-tench@audit-commission.gov.uk

Dear

## Cheshire East Audit Fees Letter 2009/10

I am writing to confirm the audit work that we propose to undertake for the 2009/10 financial year at Cheshire East Council and to set out the fee implications. The proposed work and fee reflects:

- our risk-based approach to audit planning as set out in the Code of Audit Practice
- work mandated by the Audit Commission for 2009/10; and
- only the audit element of our work. Peter Forrester, the Comprehensive Area Assessment Lead has written separately on assessment and inspection fees to Erika Wenzel.

As this is the first audit for the new Council our 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 £401,925 (exclusive of VAT). A summary of this is shown in the table below.

### Audit fee

Audit area	Planned fee 2009/10
Financial statements	
Use of Resources/VFM Conclusion [including risk based work]	
<b>Total audit fee</b>	<b>401,925</b>
Certification of claims and returns	131,544

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The Audit Commission has published its work programme and scales of fees 2009/10. The scale fee for the Council is £349,500 (based on GRE of £715m). The fee proposed for 2009/10 is 15 per cent above the scale fee, which reflects the inherent audit risk in the Council's first year of operation.

A separate detailed plan for the audit of the financial statements will be issued in December 2009 or early 2010. At this stage of the planning process we have identified the following audit risks in relation to our opinion on the financial statements for 2009/10.

Risk area	Planned work	Timing of work
Balances brought forward from former councils	Perform tests to ensure that the closing balances of former councils have been brought forward and disaggregated accurately and completely.	September/October 2009
Matching spending to the budget	Regular meetings with Director of Resources to identify any risks in relation to budgetary control.	Monthly meetings during 2009
Loss of continuity and capacity in the accountancy team	Regular meetings with Head of Finance and accountancy team to identify any specific risks that might result in the Council's accounts being materially misstated.	Monthly meetings during 2009

The proposed fee for grant certification work is an estimate only and will be charged at published daily rates.

Our use of resources assessments will be based upon three themes:

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

The key lines of enquiry specified for the three themes are set out in the Audit Commission's work programme and scales of fees 2009/10. My work on use of resources will inform the VFM conclusion which I will give in September 2010. The Use of Resources assessment will be challenging particularly in this first year for the Council. I will ensure that we work closely with officers during the year so that the Council is appropriately informed and prepared for the assessment when it takes place in 2010. I have identified the following as some of the key risk areas where it is likely that detailed audit work will be required to support the Use of resources assessment and value for money conclusion.

Risk area	Planned work	Timing of work
Human resources	Develop detailed understanding of human resource risks, strategies and how the strategies link with financial plans	October 2009 onwards
Asset and information technology management	Review of progress in delivering transitional and strategic plans for improving asset use and developing effective Information technology support.	October 2009 onwards
Identification and delivery of efficiency savings	Review and testing of the delivery and sustainability of efficiency plans	October 2009 onwards
Impact of the economic recession	Review the impact which the economic downturn is having on, for example, the demand for services and the Council's budget and medium term financial plan.	Monthly meetings with Director of Resources during 2009

Issues arising from my value for money conclusion work at the former councils in the Cheshire East area were reported to those councils in March 2009. I will summarise the issues which are relevant to Cheshire East Council in a report to you in May 2009.

If I need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with you and then prepare a report outlining the reasons why the fee needs to change for discussion with the Governance Committee.

The above fee excludes any work requested by you that the Commission may agree to undertake using its advice and assistance powers.

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

The key members of the audit team are:

Audit Manager – Andrea Castling 0844 798 3557

Team Leader – Ivan Parkhill

Performance specialist – Sarah Davies 0844 798 3561

This letter will be presented to the members of the Governance Committee in their capacity as those charged with Governance. In considering this letter they should make reference to the Audit Commission Code of Audit Practise and to the Statement of Responsibilities of Auditors and Audited Bodies.

Copies will be provided to the Council and they can be found on the Commissions website using the links below:

<http://www.audit-commission.gov.uk/reports/NATIONAL-REPORT.asp?CategoryID=&ProdID=0070AC93-EE4E-4A42-8C78-3DB722EF5A79>

and

<http://www.audit-commission.gov.uk/reports/NATIONAL-REPORT.asp?CategoryID=&ProdID=A9F9AD95-AE7D-4755-935B-94700E020A9E>

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, Terry Carter on 0844 798 7150

Yours sincerely

Judith Tench  
*District Auditor*

**cc** Erika Wenzel, Cheshire East  
Andrea Castling, Audit Commission