

Mr Barry Hunter  
 Director of Finance  
 Babergh District Council  
 Corks Lane  
 Hadleigh  
 Ipswich  
 Suffolk  
 IP7 6SJ

Our ref: 4008709/2011-12/RB/ZT

19 April 2011

Dear Barry

## Annual Audit Fee Letter 2011/12

### Indicative audit fee

We are writing to confirm the audit work that we propose to undertake for the 2011/12 financial year at Babergh District Council. The indicative fee for the audit is £106,970, which is based on the risk-based approach to audit planning as set out in the Code of Audit Practice and the work mandated by the Audit Commission for 2011/12.

As we have not yet completed our audit for 2010/11, this Letter and its underlying risk assessment focus primarily on risks in respect of our statutory value for money (VFM) conclusion audit. The audit planning process for 2011/12, including risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary. A summary of the indicative fee, and how it compares to the 2010/11 planned and 2009/10 actual fees, is shown in the table below.

Audit area	Indicative fee 2011/12 £	Planned fee 2010/11 £	Actual fee 2009/10 £
Financial statements, including WGA	65,400	67,950	63,025
VFM Conclusion, including risk based work	29,970	33,300	36,075
Planning and reporting	11,600	11,350	11,200
<b>Total Code audit fee</b>	<b>106,970</b>	<b>112,600</b>	<b>110,300</b>
Certification of claims and returns*	36,000	36,000	41,853

Tel 020 7065 0000 | Fax 020 7065 0650

Email richard.bint@uk.pkf.com | www.pkf.co.uk

PKF (UK) LLP | Farringdon Place | 20 Farringdon Road | London | EC1M 3AP | DX 479 London/Chancery Lane

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\* The indicative fee for 2011/12 and the planned fee for 2010/11 relate to the certification of grant claims and returns for the years ended 31 March 2012 and 31 March 2011 respectively. The certification fees for 2009/10 are the actual fees for the year ended 31 March 2010.

The indicative audit fee excludes improvement work we may agree to undertake (outside of the Audit Code of Practice). Each piece of work would be separately negotiated and a detailed project specification agreed with you.

The scale fee for 2011/12 has been determined by the Audit Commission as £106,970, which reflects a reduction in fees from implementing the new approach to VFM conclusion and a reduction to reflect the lower on-going audit costs after implementing IFRS. The full details are set out in the Audit Commission's [Work programme and scales of fees 2011/12](#).

The Audit Commission has stated that variations to the scale fee can be approved, to reflect changes in circumstances, before or at the completion of the 2011/12 audit.

A separate plan for the audit of the financial statements will be issued in December 2011. This will detail the significant financial statements 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 Director of Finance and, if necessary, prepare a report outlining the reasons why the fee needs to change for discussion with the Overview and Scrutiny (Stewardship) Committee.

## **Significant audit risks**

### ***Value for money***

In 2010/11 the Audit Commission reviewed its approach to auditors' VFM work so that auditors give their statutory VFM conclusion based on the following two reporting criteria:

- The organisation has proper arrangements in place for securing financial resilience.
- The organisation has proper arrangements for procuring resources within tighter budgets.

The focus of these criteria for 2011/12 continues to be:

- The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Our initial assessment of indicative significant audit risks in relation to value for money audit work is shown in the table below:

Indicative key risk	Planned work	Timing of work
<p><b>Integration with Mid Suffolk District Council</b></p> <p>The Council has a new Joint Chief Executive coming into post during 2011/12 with further Executive Team integration also due to take place during the financial year as part of the on-going closer working relationship considerations between the two organisations. Strategies and policies are being aligned to each other to develop a consistent approach.</p> <p>Key areas of risk during these transitional times are:</p> <ul style="list-style-type: none"> <li>• Redundancies</li> <li>• Monitoring of costs</li> <li>• Legality of arrangements</li> <li>• Delivery of priorities and savings targets.</li> </ul>	<p>We will review the Council's progress in relation to integration throughout the year and commence liaison meetings with the Auditors of Mid Suffolk District Council.</p> <p>We will also monitor the costs and savings being made in relation to this initiative in relation to the Council's overall delivery against budget.</p>	<p>April 2011 – March 2012</p>
<p><b>Revenues and benefits shared service</b></p> <p>The shared service arrangement will commence on 1 April 2011. This needs to demonstrate value for money and the anticipated level of savings whilst also maintaining the same level of quality of service.</p> <p>Also planned is a change in the benefit system from the current provider Civica part way through the financial year where a significant amount of data will need to be transferred across.</p>	<p>We will monitor the post implementation phase of the Shared Revenues Partnership and the data transfer through our regular liaison with Officers.</p> <p>We will also seek assurances from the Auditors of the Shared Revenues Partnership host over the controls in place over the system and service area to form part of our Understanding.</p>	<p>April 2011 – March 2012</p>
<p><b>Savings targets</b></p> <p>The Council has a significant level of savings, efficiencies and additional income to deliver in 2011/12 totalling £1.7m.</p> <p>Members and Officers have been engaged in the process of identifying the savings proposals but the approved budget recognises that there are a number of risks and uncertainties associated with the achievement of the overall budget.</p>	<p>We will monitor the Council's financial position throughout the year and undertake a review of the progress against the savings plan to inform our value for money conclusion.</p>	<p>April 2011 – March 2012</p>

We will issue a separate project specifications for any specific reviews relating to the above before beginning the work. We will also follow up on audit work from previous years to assess progress in implementing agreed recommendations.

In addition to the significant risks identified above, our updated risk assessment also identified the following, which are not significant issues although they may become so as changes in circumstances arise and we feel it appropriate to bring them to your attention at this stage:

- the Housing Revenue Account and subsidy reforms are anticipated to increase the Council's borrowing requirement by approximately £80m. This is required at the end of the 2011/12 financial year and has been included with in the Council's revised Treasury Management Strategy.

### **Financial statements**

We have not identified any significant accounts audit risks that we wish to bring to your attention at this stage and in setting the indicative 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 2010/11.

### **Administration**

The indicative audit fee will be billed in 4 instalments as follows:

<b>Month</b>	<b>£</b>
June 2011	26,500
September 2011	26,500
December 2011	26,500
March 2012	27,470
<b>Total</b>	<b>106,970</b>

The key members of the audit team for the 2011/12 are:

<b>Engagement Partner – Richard Bint</b>	Email: <a href="mailto:richard.bint@uk.pkf.com">richard.bint@uk.pkf.com</a> Tel: 020 7065 0497
<b>Senior Manager - Zoe Thompson</b>	Email: <a href="mailto:zoe.thompson@uk.pkf.com">zoe.thompson@uk.pkf.com</a> Tel: 01473 320734
<b>Assistant Manager – Clare Beesley</b>	Email: <a href="mailto:clare.beesley@uk.pkf.com">clare.beesley@uk.pkf.com</a> Tel: 01473 320781
<b>Senior - Stephanie Buer</b>	Email: <a href="mailto:stephanie.buer@uk.pkf.com">stephanie.buer@uk.pkf.com</a> Tel: 01473 320775

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 Richard Bint 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

**Richard Bint**  
Partner

PKF (UK) LLP

cc Director of Finance

cc Chair of the Overview and Scrutiny (Stewardship) Committee

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Accountants &  
business advisers

Mr Barry Hunter  
Director of Finance  
Babergh District Council  
Corks Lane  
Hadleigh  
Ipswich  
IP7 6SJ

**By post and email**

Our ref: RSB/ldm/4008709/2011-12

28 June 2011

Dear Barry

**Fees**

I said I would write to you following our discussions on fees last week.

We are committed to continuing to work with you to reduce the overall quantum of fees charged to Babergh District Council.

As you know we have worked with you and your team to reduce fees charged for grants certification work from £45,875 for 2008/9 to £41,860 for 2009/10. We discussed for the future whether internal audit could do some of the verification work on the grants certifications. Whilst it is clearly a matter for you to determine the most advantageous use of your resources we have found at some other authorities that substantial savings can be made this way.

I acknowledge the comparison with mid Suffolk on the "core" fee (of course some such as Suffolk Coastal at £110,675 are higher and some are lower) but we believe for 2011/12 with the audit risks set out in our fee letter we need a fee of the proposed £106,970 to cover the work we need to do.

We will, however, make a point of examining, as part of this year's financial statements audit work, all possible opportunities for reducing costs in addition to what we have done already for next year.

Yours sincerely

**Richard Bint**  
Senior Partner  
PKF (UK) LLP

Tel 020 7065 0000 |

Fax 020 7065 0650 | Email [richard.bint@uk.pkf.com](mailto:richard.bint@uk.pkf.com) | [www.pkf.co.uk](http://www.pkf.co.uk)

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