

AUDIT COMMITTEE

26 MAY 2011

REPORT OF HEAD OF FINANCIAL SERVICES

A.3 AUDIT COMMISSION'S AUDIT PLAN 2010/11 AND AUDIT FEE LETTER 2011/12

(Report prepared by Richard Barrett)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To present for consideration and approval the Audit Commission's Audit Plan for 2010/11 and Audit Fee Letter 2011/12.

EXECUTIVE SUMMARY

The Audit Commission's Audit Plan for 2010/11, which is attached, sets out the audit work in respect of the 2010/11 Financial Statements and Value for Money conclusion.

Two specific risks have been identified that may influence the audit work that is undertaken. The risks identified are acknowledged and are being addressed by the comprehensive processes currently being undertaken in respect of the 2010/11 Statement of Accounts.

The Annual Audit Fee letter sets out the activity and outputs from external audit work that is required to be undertaken, based on a risk assessment approach, to meet various duties and responsibilities.

RECOMMENDATIONS

a) That the Audit Committee considers and approves the Audit Plan for 2010/11 and Audit Fee Letter 2011/12.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

Delivery against priorities, service improvement and governance arrangements are improved through external challenge such as from Audit Commission inspections and reviews.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

The audit fee proposed of **£135,750** is within the overall external audit fee budget for 2010/11 of **£201,560** and remains unchanged from that originally set out in Audit Commission's fee letter reported to the Committee at its 27 May 2010 meeting although a reduction of **£2,036** to reflect the change in the approach to the Value for Money conclusion has been made.

The Council's overall budget of **£201,560** includes amounts for other areas of the external auditor's work such as certification of claims and returns, which although is anticipated to

remain within budget, will be reviewed as the year progresses as audit work is scoped, planned, undertaken and charged for.

In respect of the 2011/12 fee the total amount of **£182,659** is in excess of the current budget of **£175,590** which was reduced for 2011/12 following the anticipation of lower fees due to the reduction in audit coverage such as that associated with the previous Managing Performance Assessment. This position will be subject to on-going review during the year as part of the budget monitoring and budget setting processes and specifically against the certification of claims and returns work which is based on estimated time required.

No allowance is made within the overall fee for additional work that may be required such as that associated with additional requirements placed on the Council or unforeseen circumstances and would therefore need to be the subject of further reports where necessary.

Risk

Not supporting and responding practically and timely to Audit Commission activity may have an impact on the delivery of the Council's priorities, reputation, governance arrangements and overall control environment.

LEGAL

The Council is required to ensure there are adequate internal audit / internal control arrangements in place.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

There are no direct implications.

PART 3 – SUPPORTING INFORMATION

BACKGROUND

Shortly after the end of each financial year the Council prepares in accordance with proper practices a Statement of Accounts as statutorily required which are then subject to external audit before final publication by the end of September.

The Audit Plan issued by the Audit Commission highlights at a summary level, aspects of the work they plan on undertaking including the value for money conclusion. Their plan for 2010/11 is attached along with an Annual Fee Letter which briefly sets out related information regarding 2011/12.

At present the requirement is to prepare and publish a statement of accounts by the end of June each year following which they are subject to audit by the Audit Commission. As discussed at the Committee's last meeting, the Accounts and Audit Regulations 2011 have introduced a change to the Statement of Accounts approval process. The Head of Financial Services as S151 Officer will now be able to certify the accounts for audit and publication rather than formal approval sought from the Audit Committee at its June meeting each year.

The Audit Committee would then only need to consider the Statement of Accounts once as part of the Annual Governance Report at their September meeting which will be after they have been audited by the Audit Commission. Members will still have the opportunity to raise queries with officers in connection with the Statement of Accounts following their publication at the of June.

AUDIT PLAN 2010/11

The 2010/11 plan covers a number of issues ranging from the audit fee to the testing strategy and key milestones.

A summary of key points set out in the Audit Plan 2010/11 are highlighted below:

Auditors Report on the Financial Statements and Identification of Specific Risks

Two specific risks have been highlighted in terms of potentially affecting the audit work to be undertaken. These relate to risks to the financial statements associated with the move to International Financial Reporting Standards and the changes to the senior management Team during the year. Both issues will form part of the comprehensive closure of accounts processes that are currently underway which includes consultation with the Audit Commission where necessary.

Testing Strategy, Key Milestones and Deadlines

Elements of the auditors work can commence early in the process although the detailed work and testing will not start until shortly after the 2010/11 Statement of Accounts have been published at the end of June.

The outcome of the Audit Commission's work will be set out in the Annual Governance Report that will be presented to the Audit Committee at their September 2011 meeting followed by the Annual Audit Letter provided to the Council by the end of November 2011.

As highlighted during the course of the year, the work of Internal Audit has been subject to on-going review with changes made where appropriate such as the timing of their work to enable the Audit Commission to place reliance on it rather than undertaking additional work themselves.

ANNUAL AUDIT FEE 2011/12

The fee is based on the 2010/11 fee although adjusted to reflect proposed decreases relating to inflation and the new approach to the local value for money audit work that was reported to the Audit Committee at its March 2011 meeting.

Variations from the scale fee will only occur where the assessment of risk and complexity are significantly different to those relating to 2010/11.

A more detailed Audit Plan will be issued in December 2011 which will include an update on risks identified.

Similarly to 2010/11, there a number of outputs from the work of the Audit Commission which are set out within the attached fee letter.

BACKGROUND PAPERS FOR THE DECISION

None

APPENDICES

The Audit Commission's Audit Plan 2010/11

The Audit Commission's Annual Audit Fee Letter 2011/12
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Audit plan

Tendring District Council

Audit 2010/11

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Introduction

This plan sets out the 2010/11 audit work that I propose to undertake for the audit of financial statements and the value for money conclusion.

1 The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:

- audit work specified by the Audit Commission for 2010/11;
- current national risks relevant to your local circumstances; and
- your local risks.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.

2 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.

3 We comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the 2010 Code of Audit Practice.

Fee for the audit

The fee for the audit is £135,750, as set out in our fee letter of April 2010.

4 The fee proposed for 2010/11 equates to the scale fee specified by the Commission. However, following Audit Commission changes to the approach for local value for money (VFM) work (see section below on the 2010/11 audit approach to the value for money conclusion), the Audit Commission will be offering a rebate of 1.5 per cent of the scale fee for district councils. Accordingly, a credit note for £2,036 will be issued to the Council. Further information on the basis for the fee is set out in Appendix 1.

5 In setting the fee, I have assumed that:

- the overall level of risk in relation to the audit of accounts is consistent with that for 2009/10;
- good quality, accurate working papers are available at the start of the financial statements audit;
- the Council will supply good quality working papers to support the restatement of 2009/10 balances to comply with International Financial Reporting Standards (IFRS); and
- Internal Audit undertakes appropriate work on all material systems and this is available for our review during our interim visit.

6 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, I will discuss this first with the Head of Financial Services and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

7 Further information on the basis for the fee is set out in Appendix 1.

Specific actions the Council could take to reduce its audit fees

8 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, I will work with staff to identify any specific actions that the Council could take and to provide ongoing audit support.

9 There are a number of technical changes which are applicable to the financial statements for local authorities in 2010/11. These changes apply to all local authorities and are contained in a Statement of Recommended Practice (SORP) issued by the professional accounting bodies. Officer attendance at our workshop held in January 2010 will enable officers to focus attention on the key changes this year.

Auditors report on the financial statements

I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).

10 I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2011.

Materiality

11 I will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying opinion audit risks

12 I need to understand fully your organisation to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. I do this by:

- identifying the business risks facing the Council, including assessing your own risk management arrangements;
- considering the financial performance of the Council;
- assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Council's information systems.

Identification of specific risks

I have considered the additional risks that are appropriate to the current opinion audit and have set these out below.

Table 1: **Specific risks**

Specific opinion risks identified

Risk area	Audit response
<p>International Financial Reporting Standards (IFRS)</p> <p>Local authorities are now required to prepare financial statements under the International Financial Reporting Standards (IFRS), as adopted by the Code of Practice on Local Authority Accounting in the United Kingdom (Code of Practice). While progress to date has been good, this is a complex area and there remains a significant risk that the 2010/11 financial statements do not meet the new requirements.</p>	<p>We will review and test whether the Council has:</p> <ul style="list-style-type: none">■ identified those transactions and balances that will be affected by the transition to IFRS;■ adopted and correctly applied accounting policies that comply with the requirements of the Code and IFRS;■ restated 2009/10 transactions and balances in accordance with the adopted accounting policies and IFRS; and■ made all required disclosures in accordance with adopted accounting policies and the requirements of the Code and IFRS.
<p>Changes to Senior Management Team</p> <p>The Council has seen some changes in its senior management team during 2010/11. The related transactions are often significant and can be sensitive and the financial implications will need to be disclosed.</p> <p>This represents a specific risk to the 2010/11 financial statements.</p>	<p>We will review the Council transactions related to staff changes during the year in order to understand the Council's arrangements to ensure:</p> <ul style="list-style-type: none">■ appropriate accounting; and■ legality.

Testing strategy

On the basis of risks identified above I will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.

13 I can carry out the testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

14 Wherever possible, I will complete some substantive testing earlier in the year before the financial statements are available for audit. I have identified the following areas where substantive testing could be carried out early.

- IFRS restatement
- Review of accounting policies
- Bank reconciliation
- Journals
- Investments
- Year-end feeder system reconciliations
- Group accounts assessment.

Where I identify other possible early testing, I will discuss it with officers.

15 Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities. The fee for 2010/11 assumes that I can use the results of their work on the main financial systems.

16 I will also seek to rely on the work of other auditors and experts, as appropriate, to meet my responsibilities. For 2010/11, I plan to rely on the work of other auditors and experts in the following areas:

- Fixed asset revaluations and impairments - the Council's Corporate Property Officer and NPS Consulting.
- Pension fund and FRS17 disclosures - Mercer and Essex County Council's auditor (also Audit Commission).

Value for money conclusion

I am required to give a statutory VFM conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

17 This is based on two criteria, specified by the Audit Commission, related to your arrangements for:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

18 I have completed my initial risk assessment from my knowledge of the Council's arrangements in respect of these two criteria and have assessed the Council as low risk. In planning my work to achieve a value for money conclusion. I have identified the following key areas for my work to address, primarily using the Council's own papers. These focus upon:

- previously reported ethical framework issues;
- budget monitoring arrangements and the financial outturn for 2010/11;
- budget setting and medium term financial planning;
- the availability and accuracy of performance information reported against priority issues for Council members;
- the value for money considerations around changes in the senior management team and any redundancies experienced at the Council; and
- the value for money to be delivered by the new regeneration strategy which was approved in May 2010.

Key milestones and deadlines

The Council is required to prepare the financial statements by 30 June 2011. I am required to complete the audit and issue the opinion and value for money conclusion by 30 September 2011.

19 The key stages in producing and auditing the financial statements are in Table 2.

20 I will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers.

21 During the detailed testing phase in July and August the audit team will meet with the key contact and review the status of all queries on a regular basis, usually fortnightly, during the audit. If appropriate, we will meet at a different frequency depending on the need and the number of issues arising.

Table 2: **Proposed timetable**

Activity	Date
Control and early substantive testing	April 2011
Receipt of accounts	30 June 2011
Sending audit working papers to the auditor	30 June 2011
Start of detailed testing	July 2011
Progress meetings	Fortnightly
Present report to those charged with governance at Council	By 30 September 2011
Issue opinion and value for money conclusion	By 30 September 2011

The audit team

Table 3 shows the key members of the audit team for the 2010/11 audit.

Table 3: **Audit team**

Name	Contact details	Responsibilities
Martin Searle Engagement Lead (EL)	m-searle@audit- commission.gov.uk 0844 798 2678	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Carl Pettitt Engagement Manager (EM)	c-pettitt@audit- commission.gov.uk 0844 798 5801 07966 215095	Manages and coordinates the different elements of the audit work. Key point of contact for the Head of Financial Services.
Jennifer Garven Engagement Team Leader (TL)	j-garven@audit- commission.gov.uk 0844 798 3071	Manages and reviews work of the audit team and works with the Engagement Manager to deliver the audit. Provides regular updates on audit progress by liaison with finance staff.

Independence and objectivity

22 I am not aware of any relationships that may affect the independence and objectivity of the Engagement Lead and the audit staff, which I am required by auditing and ethical standards to communicate to you.

23 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 2.

Meetings

24 The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 3.

Quality of service

25 I aim to provide you with a high quality audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

26 If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Planned outputs

27 Reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee/Council.

Table 4: **Planned outputs**

Planned output	Indicative date
Annual governance report	By 30 September 2011
Auditor's report giving an opinion on the financial statements and the value for money conclusion.	By 30 September 2011
Final accounts memorandum (to officers)	November 2011
Annual audit letter	By 31 November 2011

Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to:

- my cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
- interviews with Council officers; and
- liaison with Internal Audit.

Assumptions

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10;
- you will inform me of significant developments impacting on the audit;
- Internal Audit meets the appropriate professional standards;
- Internal Audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that I can place reliance for the purposes of our audit;
- you provide:
 - good quality working papers and records to support the financial statements;
 - information asked for within agreed timescales;
 - prompt responses to draft reports; and
- there is no allowance for extra work needed to address questions or objections raised by local government electors.

Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

Appendix 2 Independence and objectivity

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Performance and Audit Scrutiny Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit Plan as being 'additional work' and charged for separately from the normal audit fee.
- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The Engagement Lead responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional safeguards in the last two years.
- The Engagement Lead and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.

The Engagement Lead and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Appendix 3 Working together

Meetings

The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

My proposal for the meetings is as follows.

Table 5: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Chief Executive	EL and EM	Quarterly	General update on audit issues
Head of Financial Services	EM and Team Leader (TL)	March, July, September	General update plus: <ul style="list-style-type: none">■ March - audit plan■ July - accounts progress■ September - annual governance report
Deputy Head of Financial Services	EM and TL	Quarterly	Update on audit issues
Audit Committee	EL and EM, with TL as appropriate	As determined by the Committee	Formal reporting of: <ul style="list-style-type: none">■ Audit Plan■ Annual governance report■ Other issues as appropriate

Sustainability

The Audit Commission is committed to promoting sustainability in our working practices and I will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.

Appendix 4 Glossary

Annual audit letter

Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditors' work.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB, which contain basic principles and essential procedures with which auditors are required to comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

Internal control

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality (and significance)

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only in relation to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements.

Significance has both qualitative and quantitative aspects.

Members

The elected, or appointed, members of local government bodies who are responsible for the overall direction and control of the audited body. (See also ‘Those charged with governance’ and ‘Audited body’.)

Remuneration report

Audited bodies are required to produce, and publish with the financial statements, a remuneration report that discloses the salary and pension entitlements of senior managers.

Statement on internal control/Annual Governance Statement

Local government bodies are required to publish a statement on internal control (SIC) with their financial statements (or with their accounting statements in the case of small bodies). The disclosures in the SIC are supported and evidenced by the body's assurance framework. At local authorities the SIC is known as the Annual Governance Statement and is prepared in accordance with guidance issued by CIPFA.

Those charged with governance

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'.

In local government bodies, those charged with governance, for the purpose of complying with auditing standards, are:

- for local authorities – the full council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements;
- for police or fire authorities – the full authority, audit committee (where established) or other committee with delegated responsibility for approval of the financial statements;
- for local probation boards and trusts – the board or audit committee; and
- for other local government bodies – the full authority or board or council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements

Audit committees are not mandatory for local government bodies, other than police authorities and local probation trusts. Other bodies are expected to put in place proper arrangements to allow those charged with governance to discuss audit matters with both internal and external auditors. Auditors should satisfy themselves that these matters, and auditors' reports, are considered at the level within the audited body that they consider to be most appropriate.

In NHS bodies, those charged with governance, for the purpose of complying with auditing standards, are the board of directors and, in respect of certain responsibilities, the audit committee on behalf of the board. Audit committees are mandatory in NHS bodies and are non-executive committees of the board. The main objective of the audit committee is to contribute independently to the board's overall process for ensuring that an effective internal control and risk management system is maintained.

Whole of Government Accounts

The Whole of Government Accounts initiative is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. Local government bodies, other than probation boards and trusts, are required to submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, their statutory accounts.

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946



3 May 2011

Mr Davidson
Chief Executive
Tendring District Council
Town Hall
Station Road
Clacton on Sea
Essex CO15 1SE

Direct line

0844 798 2678

Email

m-searle@audit-commission.gov.uk

Dear Ian

Annual audit fee 2011/12

I am writing to confirm the audit work that we propose to undertake for the 2011/12 financial year at Tendring District Council. The fee reflects the work required to meet the Code of Audit Practice and work mandated by the Commission for 2011/12. The audit fee covers the:

- Audit of financial statements;
- Value for money conclusion; and
- Whole of Government accounts.

As I have not yet completed my audit for 2010/11 the audit planning process for 2011/12, including the risk assessment, will continue as the year progresses.

Audit fee

For 2011/12, the Audit Commission proposes to levy an individual scale fee for each audited body. In previous years, the Commission has determined scales of audit fees with fixed and variable elements that reflect the type, size and location of audited bodies. The appointed auditor has then set the individual fees, based on the scale fee adjusted as necessary to reflect the level of local risk and the scale and complexity of the audit.

The 2011/12 scale fee will be based on the planned 2010/11 fee, adjusted for the following proposed decreases in the total audit fee:

- no inflationary increase in 2011/12 for audit and inspection scales of fees and the hourly rates for certifying claims and returns;
- a cut in scale fees resulting from our new approach to local value for money audit work; and

- a cut in scale audit fees for local authorities, police and fire and rescue authorities, reflecting lower continuing audit costs after implementing IFRS.

Variations from the scale fee will only occur where my assessments of audit risk and complexity are significantly different from those identified and reflected in the 2010/11 fee. In its *Work programme and scales of fees 2011/12: Consultation response, Local Government, housing and community safety* published in February 2011, the Audit Commission indicated that, subject to affordability, it would make additional rebates of up to £7.2 million in total in 2011/12. The document also indicated that the Audit Commission will notify audited bodies of the amount due to them in the summer.

The scale fee for Tendring District Council is £128,962, as shown in the table below.

Audit area	Scale fee 2011/12	Planned fee 2010/11
Audit fee	£128,962	£135,750
Certification of claims and returns	£53,697	£53,099
	182659	188849

I will issue a separate audit plan in December 2011. This will detail the risks identified to both the financial statements audit and the vfm conclusion. The audit plan will set out the audit procedures I plan to undertake and any changes in fee. If I need to make any significant amendments to the audit fee, I will first discuss this with you. I will then prepare a report outlining the reasons the fee needs to change for discussion with the audit committee.

I will issue several reports over the course of the audit. I have listed these at Appendix 1.

The fee excludes work the Audit Practice may agree to undertake using its advice and assistance powers. We will negotiate each piece of work separately and agree a detailed project specification.

Audit team

Your audit team must meet high specifications and must:

- understand you, your priorities and provide you with fresh, innovative and useful support;
- be readily accessible and responsive to your needs, but independent and challenging to deliver a rigorous audit;
- understand national developments and have a good knowledge of local circumstances; and
- communicate relevant information to you in a prompt, clear and concise manner.

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

Name	Contact details	Responsibilities
Martin Searle Engagement Lead	m-searle@audit-commission.gov.uk 0844 798 2678	I am responsible for the overall delivery of the audit including the quality of outputs, liaison with the Chief Executive, Head of Financial Services and Chair of Audit Committee and issuing the auditor's report.
Carl Pettitt Engagement Manager	c-pettitt@audit-commission.gov.uk 0844 798 5801	Carl manages and coordinates the different elements of the audit work. Key point of contact for the Head of Financial Services.
Jennifer Garven Team Leader	j-garven@audit-commission.gov.uk 0844 798 3071	Jennifer has experience of auditing the financial statements of local authorities. She will lead the on-site team in delivering the audit.

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. Alternatively you may wish to contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk)

Yours sincerely

C. Pettitt

pp. Martin Searle
Audit Engagement Lead

cc Karen Neath, Head of Financial Services
cc Cllr Skeels, Chair of the Audit Committee

Appendix 1- Planned outputs

We will discuss and agree our reports with officers before issuing them to the audit committee.

Table 1

Planned output	Indicative date
Audit plan	December 2011
Annual governance report	September 2012
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2012
Annual audit letter	November 2012
Annual claims and returns report	February 2013