

AGENDA ITEM: 9

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Meeting	Audit Committee
Date	29 June 2009
Subject	External Audit Fees 2009/10
Report of	Director of Resources & Chief Finance Officer
Summary	This report advises the committee of the external audit and inspection plan for the coming year.

Officer Contributors	Jonathan Bunt, Assistant Director of Resources
Status (public or exempt)	Public
Wards affected	Not applicable
Enclosures	Appendix A – copy of Annual audit fee 2009/10 letter
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	None

Contact for further information: Paul Stock, Head of Strategic Finance on 020 8359 7172

1. RECOMMENDATIONS

1.1 That the annual audit fee 2009/10 letter from Grant Thornton UK LLP be noted.

1.2 That the Committee consider whether there are any areas on which they require additional information or action.

2. RELEVANT PREVIOUS DECISIONS

2.1 None.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

3.1 The annual audit fee letter 2009/10 describes the audit work proposed to be undertaken for the 2009/10 financial year and supports fundamental aspects of financial standing and performance management in Barnet, which relates to the Council's 'More Choice, Better Value' priority.

4. RISK MANAGEMENT ISSUES

4.1 The annual audit fee letter has been formulated based on the risk-based approach to audit planning as set out in the Code of Audit Practice and assesses both the Council's local risks and current national risks relevant to the Council's local circumstances.

5. EQUALITY AND DIVERSITY ISSUES

5.1 The annual audit fee letter relates to the inspection and assessment of all services within the authority which, in turn, impact on all members of the community. It does not include inspection fees relating to the new Comprehensive Area Assessment (CAA)

6. FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS

6.1 The indicated level of fees has been incorporated by the Council when setting the annual budget and Council Tax for 2009/10.

7. LEGAL ISSUES

7.1 The relevant statutory provisions are referred to in the letter.

8. CONSTITUTIONAL POWERS

8.1 Constitution Part 3, Section 2 details the functions of the Audit Committee including "To comment on the scope and depth of external audit work and to ensure it gives value for money".

9 BACKGROUND INFORMATION

9.1 The annual audit fee 2009/10 letter dated 28 April 2009 is attached at

Appendix A. It sets out the approach and proposed work to be undertaken by the Council's appointed external auditor, Grant Thornton UK LLP, to enable a view to be reached on the Council's:

- Use of Resources and Value for Money (VFM) conclusion
- Financial Statements, including IFRS support
- Grant Claims and Returns
- Pension Scheme administration.

9.2 The fee schedule for the planned work for 2009/10 is set out in the letter. The proposed fee of £453,500 is in line with the Audit Commission's benchmark scale fee. The fee also incorporates risks relating to the preparation for accounting under International Financial Reporting Standards (IFRS).

9.3 The fee for auditing the Pension Scheme is identified separately in the summary proposals at £38,000. Previously, this has been subsumed within the general fee for auditing the financial statements. The table below sets out the audit fees for 2007/08, 2008/09 and the planned fees for 2009/10.

Audit Area	Planned Fees 2009/10 £000	Fees 2008/09 £000	Fees 2007/08 £000
Fees payable with regards to the external audit service	415	420	421
Pension Scheme Audit	38	40	10
Total Audit Fees	453	460	431
Certification of claims and returns	85	90	90
Total Fees	538	550	521

*The 2008/9 and 2007/08 external audit fees have been restated from previously published as they originally included the pension fund audit which is now presented separately.

9.4 The original fees letter set the fees higher than the Audit Commission benchmark. As a result of the Chief Executive writing to Grant Thornton the fees were brought in line with the Audit Commission benchmark. The effect of this was to reduce the Pension Scheme Audit from £40,000 to £38,000.

9.5 In addition, there is a proposed fee of £85,000 for the certification of claims and returns provided by the Council. This is an indicative fee only and may be subject to change based on volume, charged on an hourly rate basis.

9.6 The letter also highlights the key audit risks with the associated planned work and indicative timescales.

9.7 There is no detailed audit plan to accompany the schedule of fees, this will be determined following the completion of the audit work for 2008/09. A detailed plan will be presented to this Committee in due course.

10. LIST OF BACKGROUND PAPERS

10.1 None.

Legal: MM

CFO: JB

Our Ref RT/TF LBB90325

Mr Nick Walkley
Chief Executive
London Borough of Barnet
North London Business Park (NLBP)
Oakleigh Road South
London.
N11 1NP

Grant Thornton UK LLP
Grant Thornton House
Melton Street, Euston Square
London NW1 2EP

T +44 (0)20 7728 2256
F +44 (0)20 7728 2256
www.grant-thornton.co.uk

28 April 2009

Dear Nick,

Annual audit fee 2009/10

We are writing to set out the audit work that we propose to undertake for the 2009/10 financial year at the 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
- reflects only the audit element of our work, excluding any inspection and assessment fees. Your Comprehensive Area Assessment Lead will be writing to you separately on inspection fees.

The Audit Commission published its work programme and scales of fees 2009/10, in December 2008. From 2009/10, the Audit Commission has clarified that the starting point for any fee proposal is the scale fee, which is calculated using a prescribed formula. Any variation from scale fee must be approved by the Audit Commission, following agreement of the proposed fee with the audited body.

We are proposing a 2009/10 fee of £453,500 for the Authority (including the pension fund but excluding VAT). The proposed fee is lower than the 2008/09 fee level, bringing it exactly in line with the Audit Commission's scale fee. The fee incorporates risks relevant to our Code responsibilities (as set out below) and relating to preparation for accounting under International Financial Reporting Standards (IFRS).

A summary of the proposed fee is shown in the table below.

Audit area	Planned fee 2009/10	Planned fee 2008/09
Financial statements, including WGA and IFRS support	£170,000	£135,000
Use of resources/VFM conclusion	£245,500	£285,000
Pension Scheme Audit	£38,000	£40,000
Total audit fee	£453,500	£460,000
Certification of claims and returns	£85,000	£90,000

In setting the 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 to 2008/09. This will detail the risks identified, planned audit procedures and any changes in fee.

The audit fee is based on the assumption that detailed working papers, and other specified documents, are provided to an agreed timetable. Where the Council does not meet agreed timetables and/or provide poor documentation such that additional audit work is necessary, or the audit is delayed, we reserve the right to charge additional fees to cover the costs incurred.

The Council must prepare its annual accounts under International Financial Reporting Standards (IFRS), from 2010/11. Early preparation is essential and there is a risk that the Council may not be adequately prepared for the transition.

Using our IFRS experts, we will continue to help the Council to prepare for introduction of IFRS, through awareness raising sessions for officers and members and constructive challenge on the Council's plans and progress. This is included within the financial statements audit fee.

Specialist colleagues from Grant Thornton's Financial Reporting Advisory Group, can also be commissioned for more detailed technical support, should the Council require it.

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

- Managing finances
- Governing the business
- 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. Our work on use of resources informs our 2009/10 value for money conclusion and we have identified a number of risks relevant to our audit programme. For each risk, we consider the arrangements put in place by the Council to mitigate the risk, and plan our work accordingly. Our initial audit risk assessment is shown in the table overleaf:

Risk	Planned work	Timing
<p>This time next year, we will review and score the Council's arrangements for managing its workforce, as part of the 2010 use of resources assessment.</p> <p>The assessment covers arrangements in place for 2009/10 and there is a risk that the Council's arrangements may not be sufficiently developed to perform well.</p>	<p>We will carry out an early review of the Council's workforce management arrangements and provide timely feedback on any areas where the Council is not progressing as well as it should be.</p> <p>This work will help the Council to improve its arrangements and will provide evidence to support our 2009/10 VFM conclusion.</p>	<p>Oct to Dec 2009</p>
<p>The Council has £27m of deposits with Icelandic banks, which are at risk.</p> <p>There has been a Scrutiny Review of Treasury Management which highlighted certain control issues.</p> <p>The Council has is also to receive a specific external report on its treasury management arrangements.</p>	<p>We will follow up on the Council's progress in implementing the recommendations of these assessment and the Audit Commission's review of this area.</p>	<p>Oct 2009 to March 2010</p>
<p>The authority is currently reviewing its governance arrangements, particularly in regard to the role of Internal Audit, risk management and the Audit Committee.</p>	<p>We will undertake some targeted work around governance, risk management (and particularly Member involvement) and the role of Internal Audit to support our VFM conclusion.</p>	<p>Oct 2009 to March 2010</p>
<p>Barnet has set out an ambitious strategy for high quality service delivery and community leadership, and development of the Borough's infrastructure and physical estate. But, it is recognised that resources to put this into practise are likely to be more restricted in future. Consequently, the Borough is pursuing proposals for securing additional funding (Barnet Financing Plan), looking at different ways of doing business (shared services, partnerships, outsourcing etc) and also assessing service prioritisation.</p>	<p>As part of the work we will undertake to underpin our Use of Resources assessment and opinion, we will review the Council's progress in these areas. This work will be done by specific performance audit specialists who have experience of service transformation so that we can add value and suggestions to the Authority in the audit work completed.</p>	<p>Oct 2009 to March 2010</p>
<p>The Councils capacity for Scrutiny has been subject to initial review in 2007/08, but new Scrutiny arrangements will be introduced in 2009 and will be important to ensure that member review is undertaken appropriately and adds value to the Authority.</p>	<p>We will look to build on this work to assess how Scrutiny has developed when the new arrangements are operating.</p>	<p>December 2009 to March 2010</p>

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

As we have not yet completed our 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. If we need to make any significant amendments to the audit fee during the course of the audit, we will first discuss this with you and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

The audit fee will be billed throughout the year broadly in proportion to audit work delivered up to the billing date.

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

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

Engagement Lead - Richard Tremeer 020 7728 3440 / richard.tremeer@gtuk.com

Audit Manager – Tom Foster 07920 073654 / thomas.foster@gtuk.com

Performance Manager – Martin Ellender 07798 844712 / martin.ellender@gtuk.com

Audit Executive – Hanisha Solanki 020 7728 2072 / hanisha.solanki@gtuk.com

In addition, it is our intention to introduce Guy Clifton, an experienced local government performance specialist into our team to work on specific Use of Resources projects.

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 the engagement lead in the first instance. Alternatively you may wish to contact the Head of Audit at Grant Thornton UK LLP, Phil Crooks on phil.crooks@gtuk.com.

Yours sincerely

Grant Thornton UK LLP

A Planned Outputs

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

Planned output	Indicative date
Audit plan	December 2009
Audit strategy document - Accounts Audit	June 2010
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2010
Detailed Use of resources report	September 2010
Annual audit letter	By December 2010
Grants report	By December 2010

Other specific audit exercises, reports and outputs, and their timing, will be agreed initially with officers and communicated to the Audit Committee.