

22 April 2010

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— Dear Kim

Annual audit fee 2010/11

I have been liaising with your Director of Resources, Laura Rowley, in relation to the audit work that I propose to undertake for the 2010/11 financial year at Shropshire Council. I am writing to confirm the outcomes of those discussions and my proposed fee.

The fee for my audit work:

- 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 2010/11;
- excludes audit work in relation to the Pension Fund for which I will be issuing a separate fee letter; and
- reflects only the audit element of our work, excluding any inspection and assessment fees. Your Comprehensive Area Assessment Lead, John Cotterill, will be writing to you separately on inspection 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 £328,500 (exclusive of VAT) which compares to the planned fee of £324,938 for 2009/10. A summary of this is shown in the table below.

Table 1 Audit fees

Audit area	Planned fee 2010/11	Planned fee 2009/10
Financial statements and WGA	271,429	244,748
Use of Resources/VfM Conclusion [including risk based work]	57,071	80,190
Total audit fee	328,500	324,938
Certification of claims and returns	70,623	101,200

The Audit Commission has published its work programme and scales of fees 2010/11. 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. The scale fee for Shropshire Council is £324,620. The fee proposed for 2010/11 is 1.2% above the scale fee (a reduction from +5.6% last year).

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 will be higher than that identified for 2009/10 due to the implementation of IFRS. In addition, the economic downturn may possibly impact upon the income streams of the council or lead to the greater take up of demand lead services such as housing benefits. I am satisfied that the Council has plans in place to meet these challenges but it is an area where I will need to maintain a watching brief as there are potential impacts upon my audit opinion and VfM conclusion and I may need to do further work if additional specific risks materialise.

A separate plan for the audit of the financial statements will be issued in December 2010. 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 Director of Resources 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.

The key lines of enquiry specified for the assessment are set out in the Audit Commission's work programme and scales of fees 2010/11. My work on use of resources informs my 2010/11 value for money conclusion. However, I have identified a number of significant risks in relation to my value for money conclusion. For each risk, I consider the arrangements put in place by the Council to mitigate the risk, and plan my work accordingly.

My initial risk assessment for value for money audit work is shown in Table 2 below:

Table 2 Risk based work

Risk	Planned work	Timing of work
Shropshire Council has strong financial management arrangements. However, pressures on public expenditure will impact upon the Council. This will present the Council with challenges going forward, which it will need to address to ensure that it continues to provide effective services to the public.	We will monitor the Council's financial position and how the financial pressures impact upon performance of services through our use of resources work.	Jan – Sept 2011

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 £19,709 in April 2010.

I will issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 1. 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 above fee excludes any work requested by you that 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 are:

- District Auditor - Grant Patterson 0844 798 7816
- Audit Manager – Erik Bagnall 0844 798 4902
- Team Leader – Nigel Meredith 0844 798 4906
- Performance Specialist – Phil Morgan 0844 798 1127
- Performance Specialist – Pauline Mack 0844 798 4910

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 Phil Jones, West Midlands Head of Operations, (p-jones@audit-commission.gov.uk).

Yours sincerely

Grant Patterson
District Auditor

cc Director of Resources

cc Chair of the Audit Committee

Appendix 1: Planned outputs

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

Table 3

Planned output	Indicative date
Audit plan	November 2010
Annual governance report	September 2011
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2011
Use of resources report	September 2011
Annual audit letter	November 2011