

15 April 2011

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— Dear Kim

## **Annual audit fee 2011/12**

I have been liaising with your Interim Head of Finance, Peter Timmins, in relation to the audit work that I propose to undertake for the 2011/12 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 2011/12. The audit fee covers the:

- audit of the financial statements;
- value for money conclusion;
- audit of the whole of Government accounts, but
- excludes audit work in relation to the Pension Fund for which I will be issuing a separate fee letter.

## **Audit fee**

The Audit Commission proposes to set the scale fee for each audited body for 2011/12, rather than providing a scale fee with fixed and variable elements. The scale fee reflects proposed decreases in the total audit fee, as follows:

- 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 VFM audit work; and
- a cut in scale audit fees of 3 per cent for local authorities, police and fire and rescue authorities, reflecting lower continuing audit costs after implementing IFRS.

The scale fee for Shropshire Council is for £295,650 (exclusive of VAT). The scale fee is based on the planned 2010/11 fee, adjusted for the proposals summarised above, and is shown in Table 1 below. 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. 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.

I charge a fee to cover the full cost of certifying claims. The fee depends on the amount of work required to certify each claim or return. The fee charged for claim and return certification work in 2009/10 was £79,000. On the assumption that the number of claims remains the same, and the Council's control environment remains strong, I estimate that the indicative costs should reduce to £75,000 for both 2010/11 and 2011/12. The fee details are summarised in Table 1 below.

**Table 1      Audit fees**

<b>Audit area</b>	<b>Scale fee 2011/12</b>	<b>Planned fee 2010/11</b>
<b>Audit fee</b>	<b>£295,650</b>	<b>£328,500</b>
<b>Certification of Claims &amp; Returns (indicative costs)</b>	<b>£75,000</b>	<b>£75,000</b> <small>(revised up from indicative fee of £64,000 reported in April 2010 based upon actual experience in 2009/10)</small>

My Value for Money (VFM) conclusion review will be based upon the evidence from two themes:

- financial resilience; and
- securing economy, efficiency and effectiveness

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

**Table 2 Risk based work**

<b>Risk</b>	<b>Planned work</b>	<b>Timing of work</b>
Shropshire Council has strong financial management arrangements. However, the financial pressures faced following the cuts in public expenditure will impact upon the Council. This will present the Council with challenges going forward including the need to: maintain adequate financial balances whilst continuing 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 VFM conclusion review.	Feb – Sept 2012

I have not identified any other specific risks at this time for which I will need to undertake specific pieces of work to inform my 2011/12 Value for Money conclusion. However, I will be keeping the Council's transformation strategy under review. Where necessary, I will discuss the specifications of any work of this nature with you and issue a detailed project plan before work begins.

A separate Audit Strategy document for the audit of the financial statements will be issued in February 2012. This will detail the risks identified to both the financial statements audit and the Value for Money conclusion, 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 Head of Finance and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

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

The fee excludes work the Commission 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
Grant Patterson Engagement Lead	<a href="mailto:g-patterson@audit-commission.gov.uk">g-patterson@audit-commission.gov.uk</a> 0844 798 7816	Grant is responsible for the overall delivery of the audit including the quality of outputs, liaison with the Chief Executive and Chair of the Audit Committee and issuing the auditor's report.
Erik Bagnall Engagement Manager	<a href="mailto:e-bagnall@audit-commission.gov.uk">e-bagnall@audit-commission.gov.uk</a> 01743 252941	Erik manages and coordinates the different elements of the audit work. Key point of contact for the Head of Finance.
Bethan Vaghela Team Leader	<a href="mailto:b-vaghela@audit-commission.gov.uk">b-vaghela@audit-commission.gov.uk</a> 01743 252941	Bethan has considerable 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 in the first instance. Alternatively you may wish to contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1<sup>st</sup> Floor. Millbank Tower, Millbank, London SW1P 4HQ ([c-westwood@audit-commission.gov.uk](mailto:c-westwood@audit-commission.gov.uk)) who will look into any complaint promptly and do what he can to resolve the position.

Yours sincerely

**Grant Patterson**  
District Auditor

cc Interim Head of Finance

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.

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**Table 3**

<b>Planned output</b>	<b>Indicative date</b>
Audit Strategy	February 2012
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