

# Comparison of audit fee

Uttlesford District Council

Audit 2010/11

July 2010



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## Status of our reports

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.
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# Introduction

- 1 This report summarises the planned fees for both audit and inspection work for 2010/11 and compares these to those planned for 2009/10. It also provides a comparison of audit fees against other comparable Councils in Essex as well as details of how the Council could reduce fees in future.
- 2 This is in response to an action point agreed at the Performance Select Committee meeting on 22 June 2010, and also to provide further information to support to our 2010/11 audit and inspection fee letter, which was presented at the Committee's meeting on 22 June 2010.

# Comparison of fees

- 3 The tables below contain the planned total audit fees for 2008/09, 2009/10 and 2010/11 as contained within the 2009/10 and 2010/11 fee letters. These have been analysed by audit, grant and inspection fee, to make the comparison more meaningful. The tables also include the percentage and value changes between 2009/10 and 2010/11 together with a brief explanation for the more significant changes.

## Audit fees

- 4 Table 1 below outlines the year on year comparison of audit fees.

**Table 1 Comparison of audit fees**

Details	2008/09	2009/10	2010/11	Variance	% change
Financial statements	£73,000	£66,035	£71,617	£5,582	8.4%
Use of Resources/VfM conclusion	£52,530	£55,955	£48,173	(£7,782)	(14%)
Whole of Government Accounts	£2,815	£2,260	£2,410	£150	6.6%
<b>Total Audit Fee</b>	<b>£128,345</b>	<b>£124,250</b>	<b>£122,200</b>	<b>(£2,050)</b>	<b>(1.6%)</b>
% of audit fee above scale fee	30%	24.4%	15.5%	-	(8.9%)

Source: 2010/11 and 2009/10 fee letters and 2009/10 opinion plan

## Financial statements

- 5 The increase in fee for the financial statements element of the audit reflects the costs of additional audit work arising from the introduction of International Financial Reporting Standards in 2010/11. This was noted within the 2010/11 fee letter. The Council has already received a rebate (credit note 4031513) for this amounting to £6,332 in May 2010. Therefore, the 2010/11 audit fee for financial statements after adjusting for the rebate is £65,285 (i.e. £71,617 less £6,332) and is lower than that planned for 2009/10.
- 6 Our financial statements audit assumes we can rely on the work performed by Internal Audit for the purposes of our controls assurance testing. Our 2009/10 Opinion Audit Plan stated that in setting the fee, we have assumed that Internal Audit undertakes appropriate work on all material systems and this is available for our review by 30 April 2010. In addition, an updated joint working protocol was shared with Internal

## Comparison of fees

Audit in 2009/10. However, we have been unable to fully rely on the work performed by Internal Audit as their work was either not available in its entirety by the time we had agreed to undertake our controls assurance testing, or the controls tested by Internal Audit did not match those we considered key for our testing purposes. In the absence of being able to use the work of Internal Audit, we have had to perform our own controls assurance testing as required by the International Standards on Auditing.

- 7 This is therefore a key area for the Council to focus on when identifying areas for reducing audit fees in future. We will continue to liaise with Internal Audit with a view to increasing our reliance on their work in future, and therefore reducing the amount of controls testing we need to perform ourselves.

## Use of resources

- 8 The decrease in fee for Use of Resources (UoR) reflects the improvements made by the Council as identified in the 2009 UoR assessment performed in 2008/09.
- 9 As set out in our fee letter the 2009 assessment, performed in 2008/09 and reported in January 2010, was charged to and funded from the 2009/10 fee. The 2010 assessment, already performed during 2009/10, was charged to and funded from the 2010/11 fee.
- 10 As such, the UoR fee noted in Table 1 above is effectively paid in arrears by the Council. For all other work such as financial statements and WGA, the fee is paid on account (in advance).

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## Scale fees

- 11 Our audit fees are determined on a risk basis with reference to the scale fees determined by the Audit Commission. An extract from the document 'Work programme and scales of fees 2010/11' which is publically available from the Audit Commission's website, is included below for information:

**The Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work was required than envisaged by the scale fee. The Commission may therefore charge a fee which is larger or smaller than the scale fee to reflect the actual work that auditors need to do to meet their statutory responsibilities. The Commission will do this on the basis of the auditor's assessment of risk and the scale and complexity of the audit at a particular body. This fee then becomes payable.**

**It is a matter for the auditor to decide the work necessary to complete the audit and, subject to approval by the Commission, to seek to agree a variation to the scale fee with the audited body. The Commission will normally expect to approve a proposed variation to the scale fee where this is agreed by the auditor and the audited body. The Commission would not normally expect to vary the scale fee by more than 25 per cent upwards and 20 per cent downwards.**

- 12** The percentage change on scale fee as shown in Table 1 shows the trend between 2009/10 and 2010/11. The scale fee is formula driven and is based on a fixed element plus a percentage of the planned Gross Revenue Expenditure (GRE) for the financial year in question. The calculated scale fee therefore changes in response to any changes to the GRE. As part of our fee planning exercise each year, we compare the audit fee against the scale fee and the percentage difference is then calculated and reported within our fee letter.
- 13** As shown in Table 1, there is a decrease in the percentage above scale fee year on year, which is consistent with the decrease in our audit fee between 2009/10 and 2010/11. The planned fee for 2010/11 is within the normal range expected by the Audit Commission as outlined above.

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### Grant fees

- 14** Table 2 below outlines the year on year comparison of grant fees.

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**Table 2 Comparison of grant fees**

Details	2008/09	2009/10	2010/11	£ change	% change
Certification of claims and returns	£66,000	£64,365	£61,915	(£2,450)	(3.8%)
<b>Total Grant Fee</b>	<b>£66,000</b>	<b>£64,365</b>	<b>£61,915</b>	<b>(£2,450)</b>	<b>(3.8%)</b>

Source: 2010/11 and 2009/10 fee letters

- 15** The fee for the certification of claims and returns is only billed when work is actually undertaken and the Council are only billed for the time it takes to perform the audit. As noted in our 2008/09 grants report, the Council has made a number of improvements in their grant arrangements, and as such we anticipate that the fees charged for 2009/10 and 2010/11 are likely to be less than in 2008/09 (when the fee charged was £66,000). However, until we undertake our work on 2009/10 claims this is still unknown and the figures outlined in the table above are only estimates. If the audit takes less time, then less will be billed.
- 16** This is therefore a key area for the Council to focus on when identifying areas for reducing audit fees in future.

## Comparison of fees

### Inspection fees

17 Table 3 below outlines the year on year comparison of inspection fees.

**Table 3 Comparison of inspection fees**

Details	2008/09	2009/10	2010/11	£ change	% change
Managing performance (2008/09 – relates to Direction of travel and relationship management)	£13,045	£9,152	£9,152	£0	0%
Strategic housing services follow-up inspection (2008/09 – relates to Housing management inspection)	£8,290	£0	£20,318	£20,318	100%
<b>Total Inspection Fee</b>	<b>£21,335</b>	<b>£9,152</b>	<b>£29,470</b>	<b>£20,318</b>	<b>222%</b>

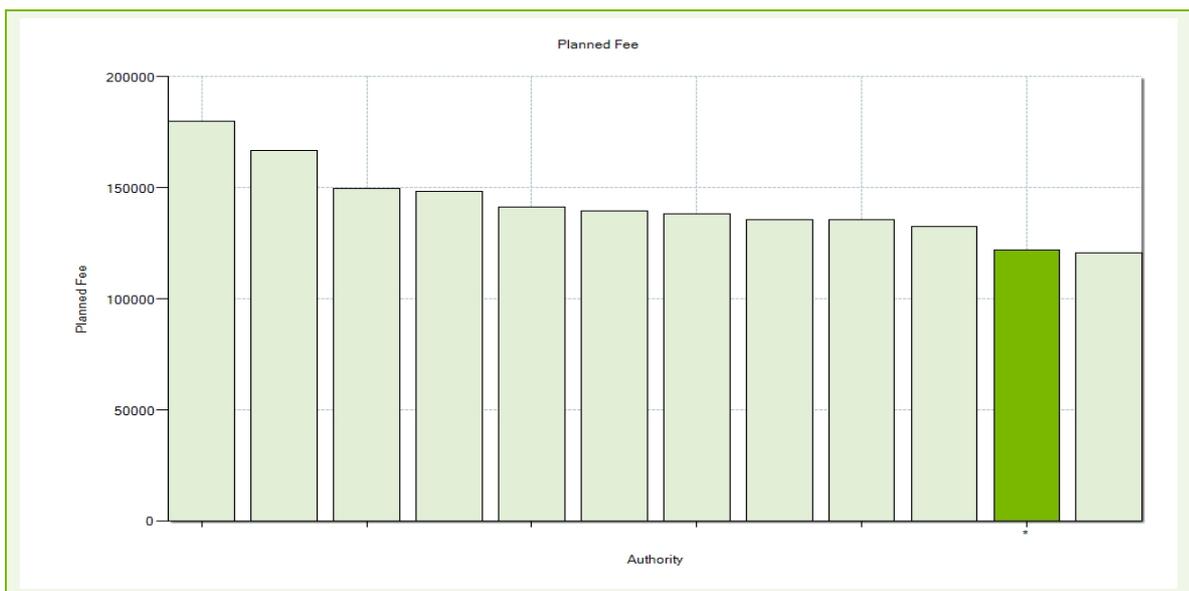
Source: 2010/11 fee letter and 2008/09 Audit and Inspection Plan

- 18 The increase in inspection fees relates solely to the strategic housing services follow-up inspection scheduled for 2010/11. This is being undertaken because in the previous inspection in 2007/08 the service received a score of fair quality but poor prospects for improvement.
- 19 There was no change to the managing performance assessment fee that was planned. However due to the recent Government announcements on CAA, this is now subject to change. A national view from the Audit Commission regarding potential fee refunds is pending, and we will inform the Council as soon as the position is known.

# Comparison of Uttlesford DC audit fees with other similar Councils in Essex

- 20** On the Audit Commission website (<http://auditfeecomparator.audit-commission.gov.uk/>) there is a fee comparison tool developed to assist audited bodies to compare their audit fees against similar bodies. The tool is intended to make the Commission's regime more transparent to audited bodies and other stakeholders.
- 21** We have run a query through this tool to compare the audit fee of Uttlesford DC with other Councils within Essex, the results of which are noted below.
- 22** Please note, the following graph represents the comparison of 2010/11 fees between Local Government District and Borough Councils. We have not compared Uttlesford DC with health bodies (i.e. Acute Trusts, Primary Care Trusts or Foundation Trusts) as they are subject to a different regulatory regime and do not have a Housing Revenue Account and Collection Fund, which require audit. In addition, we do not complete use of resources assessments for Foundation Trusts. Similarly, we have not included Thurrock Council or Essex County Council as these are not directly comparable as they are Unitary and County Councils respectively.

**Figure 1 2010/11 audit fees - Comparison of UDC with other Essex DCs and BCs**



Source: Audit Commission Audit Fee Comparator Tool



## Comparison of Uttlesford DC audit fees with other similar Councils in Essex

23 The highlighted bar relates to Uttlesford District Council. Uttlesford DC therefore has the second lowest audit fee out of all 12 District and Borough Councils in Essex. An analysis of the planned audit fees used when generating the above graph are noted in Table 4 below.

**Table 4      2010/11 audit fees - Comparison of UDC with other Essex DCs and BCs**

<b>Council</b>	<b>Planned Fee</b>
Harlow District Council	£179,740
Basildon District Council	£166,583
Epping Forest District Council	£149,700
Brentwood Borough Council	£148,500
Chelmsford Borough Council	£141,160
Colchester Borough Council	£139,550
Braintree District Council	£138,200
Castle Point Borough Council	£135,825
Tendring District Council	£135,750
Rochford District Council	£132,500
Uttlesford District Council	£122,200
Maldon District Council	£120,770

Audit Commission Audit Fee Comparator

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# Opportunities for fee reduction

**24** Despite having one of the lowest audit fees in Essex, there is still scope for the Council to reduce the audit fee further. Some improvement areas have been noted throughout this report. These are summarised here for clarity.

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## Internal Audit

**25** The Audit Commission's Code of Audit Practice requires that we give an opinion on the Council's annual financial statements. We are required to plan and perform our work in accordance with International Standards on Auditing (UK and Ireland) (ISAs) and to meet this requirement we undertook a pre-statement audit at the Council.

**26** Our pre-statement audit work was undertaken in order to comply with ISA(UK&I) 315 which requires that:

**The auditor should obtain an understanding of the entity and its environment, including its internal control, sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, and sufficient to design and perform further audit procedures.**

**27** We also undertook a programme of testing of certain controls upon which we sought to place reliance for the audit opinion. As part of our work we planned to review the work of Internal Audit, where this was available, with a view to placing reliance on it wherever possible.

**28** Internal audit is a key governance tool that gives senior management of the Council assurance that the internal controls are operating effectively. They also act as a detector of, and deterrent against, fraud.

**29** As part of our audit approach we planned to work closely with Internal Audit to maximise the reliance we could place on their work and reduce the amount of testing we needed to carry out. As noted in paragraph 6 already, we have been unable to fully rely on the work performed by Internal Audit as their work was either not available in its entirety by the time we had agreed to undertake our controls assurance testing, or the controls tested by Internal Audit did not match those we considered key for our testing purposes. As such we were unable to place reliance on it and had to perform the required controls testing ourselves.

**30** The Council should therefore ensure that for those systems where we plan to place reliance on Internal Audit, this work is completed in line with agreed timescales in order that we can place reliance on it. We would suggest that this work is completed in quarter 3 to ensure it is available on a timely basis. We will ensure that Internal Audit are made aware of which controls we consider are key in advance of them performing this work. This would result in a reduction in the amount of external audit work required and associated fee.

## Opportunities for fee reduction

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### System of control

- 31** From the pre-statements work performed in 2009/10 no significant control weaknesses were noted. However, we did note a number of issues which we will include in a separate interim report. These have not adversely impacted on the planned testing approach, which is still largely controls based. However they have resulted in additional audit work.
- 32** For example, we found that for a sample of 20 creditors invoices, four were not formally matched to purchase orders and/or delivery notes. This resulted in further pre-statements work, and also resulted in the need for additional substantive work at the post statements stage to mitigate the audit risks this posed.
- 33** In future, by minimising the control system weaknesses, the amount of additional external audit time required will reduce.

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### Grant claims

- 34** As noted already in paragraph 15 to this report, the fee for the certification of claims and returns is only billed when work is actually undertaken and the Council are only billed for the time it takes to perform the audit. If the grant claim audits take less time, then less will be billed.
- 35** There is therefore an opportunity to reduce audit fees further by ensuring that the findings and recommendations noted in the 2008/09 grant report are implemented.
- 36** Please refer to the 2008/09 grant claim report for more information.

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# The Audit Commission

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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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)