

7 July 2010

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— Dear Elizabeth

Annual audit plan and fees 2010/11

Following the announcement of the cessation of CAA and the subsequent withdrawal of my previous letter dated 29 April 2010, I am now writing to confirm the audit work and fees proposed at Torbay Council for the 2010/11 financial year.

The audit work is based on a risk-based approach to audit planning as set out in the Code of Audit Practice but the fee also includes work which has been mandated by the Commission for 2010/11. As I have not yet completed the audit for 2009/10, my risk assessment will continue as the year progresses and fees will be reviewed and updated as necessary.

The Audit Commission has published its work programme and scales of fees for 2010/11. A copy of this document can be found on the Audit Commission's website.

Torbay's audit fee has been set at 2.5% above the scale fee. Therefore the audit fee for 2010/11 is £250,000 compared with the agreed fee of £237,700 for 2009/10. However this increase is subject to abatement as set out over the page.

The table below brings together and compares the fee elements.

Area of work	Planned fee 2010/11	Agreed fee 2009/10
Financial statements including WGA	181,500	170,670
VFM audit/Conclusion	68,500	67,030
Total audit fee <i>(before IFRS subsidy – see over page)</i>	£250,000	£237,700
Certification of claims and returns <i>(see note over page)</i>	£36,000	£36,000

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Note: The fee quoted for grant certification work is an estimate only. This work will be charged at published daily rates.

The work programme published by the Commission signalled an overall 6% increase from the previous year to take account of additional audit work arising from the introduction of International Financial Reporting Standards and this is reflected in my proposal. The Audit Commission's Chief Executive set out the background to this in his letter of 5 February 2010.

However, the Audit Commission will absorb the cost of these additional requirements and will make a direct refund of these costs totalling £14,656, representing six per cent of the scale fee. The refund will be made in December 2010.

I would like to take this opportunity to remind you that those charged with governance within the Council are responsible for ensuring that the Council is prepared for the introduction of IFRS. Although I do not have direct audit responsibilities in respect of balances at the transition date, these will form the opening balances for the comparative period. I will continue to monitor your IFRS project planning and monitoring to inform my own ongoing audit risk assessment.

Additionally in 2010/11 changes in the International Auditing Standards will increase the audit procedures I need to carry out. In line with the Audit Commission fee proposals for 2010/11, I have absorbed the cost of these additional requirements in the above fee.

A separate opinion plan for the audit of the financial statements will be issued to you once my ongoing work is sufficiently advanced. This will detail any risks identified, planned audit procedures and any changes in fee. In considering the scope and nature of my audit, I wish to draw your attention to the following documents, which are available via the Audit Commission's website (www.audit-commission.gov.uk) :

- Statement of responsibilities of auditors and audited bodies;
- Code of audit practice.

As you will be aware the Audit Commission had previously announced it was carrying out a fundamental review of its approach to assessing value for money (VFM) work from 2011/12. Consultation on 2011/12 fee scales and work programmes will begin shortly and this will include the effects of changes in the inspection regime on the 2010/11 audit.

For the purposes of setting this fee, I have assumed that VFM assessments will continue to be required in 2010/11 (eg to inform the value for money conclusion) and therefore the fee is based upon the Commission's scales of fees 2010/11. Any fee changes arising from the impending consultation will be reflected, when they are known.

My initial risk assessment for value for money audit work is shown in the table below:

Value for money risk assessment

Risk	Planned work	Timing of work
The council is required to implement new International Financial Reporting Standards in 2010/11.	I will review the Council's plans for implementing and accounting for these new standards	April 2010 – March 2011
The public sector will need to make significant cuts to address the national debt. Torbay, like other councils, is likely to face significant funding cuts and will need to take action to reduce its costs whilst minimising the impact on services.	As part of my value for money conclusion I will review the resilience of the Council's financial plans.	February – June 2011


If I need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with senior management and will then prepare a report outlining the reasons why the fee needs to change for the Audit Committee.

Finally, I would bring the following to your attention:

- The above fee excludes work 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.
- I will issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 1.
- The key contact for the audit is the audit manager, Steve Brown, who can be contacted on 07769 672920.

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 the South West Head of Operations, Bill Sanderson (b-sanderson@audit-commission.gov.uk).

Yours sincerely

A handwritten signature in black ink, appearing to read 'A. Williams', with a horizontal line underneath it.

Alun Williams
Engagement Lead

cc Caroline Taylor – Deputy Chief Executive

cc Richard Thorpe – Executive Head (Governance)

cc Councillor Oliver - 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 1

Planned output	Indicative dates
Fee letter	April 2010; revised July 2010
Opinion plan	January to March 2011
Annual Governance Report	September 2011
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2011
Final accounts memorandum	October 2011
Annual audit letter	November 2011