



Accountants &
business advisers

Peter Haywood
Chief Executive
Epping Forest District Council
Civic Offices
High Street
Epping
Essex
CM16 4BZ

Our ref: 4008927/2010-11/RSB/LJC

27 April 2010

Dear Peter

Annual Audit Fee 2010/11

Further to our discussions, we are writing to confirm the audit work that we propose to undertake for the 2010/11 financial year at Epping Forest District 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 2010/11. The fees for inspection and assessment are reported separately and excluded from the audit fee.

As we have not yet completed our 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 £149,700 which compares to the planned fee of £145,290 for 2009/10 and the actual fee of £147,000 for 2008/09. A summary of the fee is shown in the table below.

Audit area	Planned fee 2010/11	Planned fee 2009/10	Actual fee 2008/09
Financial statements, including WGA	86,200	82,290	87,700
Use of Resources/VFM conclusion [including risk based work]	35,000	34,900	32,350
Planning and reporting	28,500	28,100	26,950
Total Code audit fee	149,700	145,290	147,000
Certification of claims and returns*	62,000	60,500	61,866

*Planned fees for 2010/11 and 2009/10 relate to the certification of grant claims and returns for the years ended 31 March 2011 and 31 March 2010 respectively. The certification fee for 2008/09 is the actual fee for the year ended 31 March 2009.

Tel 020 7065 0000 | Fax 020 7065 0650

Email richard.bint@uk.pkf.com | www.pkf.co.uk

PKF (UK) LLP | Farringdon Place | 20 Farringdon Road | London | EC1M 3AP | DX 479 London/Chancery Lane

PKF (UK) LLP is a limited liability partnership registered in England and Wales with registered number OC310487.

A list of members' names is open to inspection at Farringdon Place, 20 Farringdon Road, London EC1M 3AP, the principal place of business and registered office. PKF (UK) LLP is authorised and regulated by the Financial Services Authority for investment business activities. PKF (UK) LLP is a member firm of the PKF International Limited network of legally independent firms and does not accept any responsibility or liability for the actions or inactions on the part of any other individual member firm or firms.

Your audit fee will be billed in 4 equal instalments of £37,425 from June 2010.

The audit fee for 2010/11 includes a charge for the introduction of International Financial Reporting Standards (IFRS). The transition will result in an increased level of work for auditors, particularly in the first year when both the outturn figures and the restated comparatives will need to be audited. However, in recognition of the financial pressures that public bodies are facing in the current economic climate, the Audit Commission will subsidise the Council for this increased cost by refunding 6% of the scale fee which amounts to £8,179.

With the exception of the introduction of IFRS, in setting the 2010/11 fee at this level, we have assumed that the general level of risk in relation to the audit of the financial statements will be improved from that identified for 2009/10 and that audit issues identified in 2008/09 will be proven to be resolved. This assumption will be revisited once our 2009/10 financial statements audit is complete. Given we have not yet completed our Use of Resources assessments for 2009/10 we have also assumed that the resource input for Use of Resources assessments will be at the same level as for 2008/09, although we are aware the Audit Commission are consulting on proposed changes to the regime and the impact of any changes will be assessed when the review has been concluded.

The guidance relating to data quality spot check work has been revised for the next assessment. Our review of the 2008/09 indicators highlighted an improvement in the underlying audit trail for those performance indicators tested and therefore we have reduced the number of indicators being reviewed from 5 to 3 which has been reflected in the fee calculation. The benefits work that feeds into the assessment of Key Line of Enquiry 2.2 will now be based on management arrangements in place during 2009/10 for benefits data quality and the outcome of our certification work on the 2008/09 housing and council tax benefit subsidy grant claim. Links to wider certification work have also been added to the guidance to raise the profile of certification work.

A separate plan for the audit of the financial statements will be issued in December 2010. This will detail the significant risks identified, planned audit procedures to respond to those risks and any changes in fee. If we need to make any significant amendments to the audit fee during the course of the audit, we will first discuss this with the Director of Finance and ICT and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit and Governance Committee.

We will issue a number of reports relating to our work over the course of the audit. These are listed in the appendix to this letter.

Use of resources

Our use of resources assessments will be based upon the evidence from the three themes of 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. Our work on use of resources informs our 2009/10 value for money conclusion and our initial assessment of indicative key risks in relation to value for money audit work is shown in the table below:

Indicative key risk	Planned work	Timing of work
Leadership: There is a risk of adverse impact on the leadership and strategic capacity of the Council (and potentially effective use of resources) given the protracted discussions concerning the structure of the senior management team.	This will be kept under review at liaison meetings and other meetings with Council officers.	April 2010 – March 2011

In addition to the key risk identified above, our updated risk assessment also identified the following factors that, whilst not significant risks, merit audit emphasis. Accordingly we feel it appropriate to bring them to your attention at this stage:

- The findings from the Audit Commission's November 2009 survey on the preparedness of local authorities for IFRS implementation found that only one in seven authorities were "on track" and one in five is having serious difficulties. We assessed the Council as being in the very early stages of preparation and planning for transition to IFRS at that time. There could be use of resources assessment implications for the Council if the implementation process is not managed effectively.
- Safeguarding Children was raised as a red flag for Essex in the CAA last year. Our focus is on the Council's involvement in restructuring in Essex, as this applies to our Code responsibilities, in particular the Council's risk management, partnership and governance arrangements with respect to its role in safeguarding. We will develop, discuss and agree the scope and specification for any detailed work considered necessary to understand and assess the Council's arrangements before any field work is commenced.

Accounts

Although we would not ordinarily recognise accounts risks at this stage, the significance of the transition to International Financial Reporting Standards is considered to be a significant accounts risk for 2010/11. Accordingly we feel it appropriate to bring this to your attention at this stage:

Indicative significant risk	Planned work	Timing of work
International Financial Reporting Standards (IFRS) will be adopted in local government from 2010/11 and will also require restatement of prior year comparative figures. There is a risk around transitional arrangements and preparation of the accounts in compliance with IFRS.	We will monitor the Council's progress against implementation of their IFRS plan and management's transition arrangements. Additional detailed audit procedures will also be required in the restatement exercise of comparative balances for year ended 31 March 2009 and 31 March 2010.	April 2010 – March 2011 (restatement work during January 2011 to March 2011)

Comprehensive area assessment (CAA) fees

The CAA framework includes organisational assessments for councils which combine the use of resources themes and a managing performance theme. The total indicative fee for inspection for 2010/11 is £9,152. The inspection fee has been set in accordance with the Audit Commission's work programme and scales of fees 2010/11 and comprises the managing performance theme of organisational assessment.

Your audit team

The key members of the audit team for the 2010/11 are:

- Engagement lead Richard Bint 020 7065 0497
- Audit Manager Lisa Clampin 01473 320716
- Assistant Manager Clare Beesley 01473 320781
- Senior Neil Jenner 01473 320806

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 Richard Bint in the first instance. Alternatively, you may wish to contact our Managing Partner, Martin Goodchild. Any complaint will be investigated carefully and promptly. If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales ("ICAEW").

Yours sincerely

A handwritten signature in black ink, appearing to read 'Richard Bint', written in a cursive style.

Richard Bint
Partner
PKF (UK) LLP

cc Bob Palmer, Director of Finance and ICT

cc Cllr A Green, Chair of the Audit Committee

Appendix: Planned Outputs

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

Planned output	Indicative date
Use of resources assessment report (2009/10 assessment)	October 2010
2010/11 Detailed audit plan	December 2010
2010/11 Annual governance report	September 2011
2010/11 Annual audit letter	November 2011
Report on certification of grants claims for the year ended 31 March 2011	February 2012