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Acting Chief Executive  
Epping Forest District Council  
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Our ref: 4008927/2011-12/RSB/LJC

26 April 2011

Dear Derek

## Annual Audit Fee Letter 2011/12

### Indicative audit fee

We are writing to confirm the audit work that we propose to undertake for the 2011/12 financial year at Epping Forest District Council. The indicative fee for the audit is £142,215, which is based on the risk-based approach to audit planning as set out in the Code of Audit Practice and the work mandated by the Audit Commission for 2011/12.

As we have not yet completed our audit for 2010/11, this Letter and its underlying risk assessment focus primarily on risks in respect of our statutory value for money (VFM) conclusion audit. The audit planning process for 2011/12, including risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary. A summary of the indicative fee, and how it compares to the 2010/11 planned and 2009/10 actual fees, is shown in the table below.

Audit area	Indicative fee 2011/12 £	Planned fee 2010/11 £	Actual fee 2009/10 £
Financial statements, including WGA	82,215	86,200	86,290
VFM Conclusion, including risk based work	31,500	35,000	34,900
Planning and reporting	28,500	28,500	28,100
<b>Total Code audit fee</b>	<b>142,215</b>	<b>149,700</b>	<b>149,290</b>
Certification of claims and returns*	62,000	62,000	69,994

\* The indicative fee for 2011/12 and the planned fee for 2010/11 relate to the certification of grant claims and returns for the years ended 31 March 2012 and 31 March 2011 respectively. The certification fees for 2009/10 are the actual fees for the year ended 31 March 2010.

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The indicative audit fee excludes improvement work we may agree to undertake (outside of the Audit Code of Practice). Each piece of work would be separately negotiated and a detailed project specification agreed with you.

The scale fee for 2011/12 has been determined by the Audit Commission as £142,215, which reflects a reduction in fees from implementing the new approach to VFM conclusion and a reduction to reflect the lower on-going audit costs after implementing IFRS. The full details are set out in the Audit Commission's [Work programme and scales of fees 2011/12](#).

The indicative audit fee has initially been set at the scale fee level as no significant audit risks have been identified at this stage.

The Audit Commission has stated that variations to the scale fee can be approved, to reflect changes in circumstances, before or at the completion of the 2011/12 audit.

A separate plan for the audit of the financial statements will be issued in December 2011. This will detail the significant financial statements 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 & ICT and, if necessary, prepare a report outlining the reasons why the fee needs to change for discussion with the Audit and Governance Committee.

As the risk profile of the Council is average and the indicative fee is at scale, there is little scope to reduce the audit fee in future years. However, there is scope for the Council to improve its overall control environment arrangements for the preparation of grant claims and supporting working papers for audit and to involve Internal Audit in substantive testing of larger grant claims. This may enable grant fee reduction.

## **Significant audit risks**

### ***Value for money***

In 2010/11 the Audit Commission reviewed its approach to auditors' VFM work so that auditors give their statutory VFM conclusion based on the following two reporting criteria:

- The organisation has proper arrangements in place for securing financial resilience.
- The organisation has proper arrangements for procuring resources within tighter budgets.

The focus of these criteria for 2011/12 continues to be:

- The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We did not identify any significant audit risks in relation to value for money from our initial assessment.

However, our updated risk assessment did identify a number of factors that whilst not significant, merit monitoring going forward. Accordingly we feel it appropriate to bring these to your attention at this stage:

- The current economic climate continues to cause financial pressures for the Council with the change in estimated revenue spending power in 2011/12 for the Council being a reduction of 5.5% overall (£1.1m). In real terms, this is actually a reduction of approximately 16% of revenue support grant which presents a notable financial management challenge. The Council currently benefits from an inherently strong financial position compared to other authorities, having built up its levels of reserves in previous years. This is enabling the Council to address its short and medium term financial challenges partially through the utilisation of reserves, without breaching its policy on the minimum levels of reserves to be retained. Consequently we have assessed that there is no significant audit risk at this stage. Nevertheless, the Council's financial position will be regularly monitored during the course of our planning and delivery of the audit, and we will assess the Council's financial resilience, including utilisation of reserves, and plans for delivering efficiencies as part of forming our value for money conclusion.
- The Council previously received a critical inspection report from the Audit Commission regarding the operation of the benefits service, in response to which a detailed action plan for improving the service has been developed. We will monitor the implementation of the action plan to determine whether any potential audit risks arise from implementation arrangements, or possible delays to them.
- Consideration is being given to the viability of the Council entering into a joint venture style of arrangement with a private sector company, to develop a retail park in Langston Road as an income generation opportunity. In addition, the Council is currently reviewing the potential development opportunities for North Weald Airfield. No decisions have yet been made on the way forward in either case, but we will monitor developments to determine whether any potential audit risks arise.

### ***Financial statements***

We have not identified any significant accounts audit risks that we wish to bring to your attention at this stage and in setting the indicative fee at this level, we have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2010/11.

### **Administration**

The indicative audit fee will be billed in 4 equal instalments of £35,553.75

The key members of the audit team for 2011/12 are:

<b>Engagement Partner</b> – Richard Bint	Email: <a href="mailto:richard.bint@uk.pkf.com">richard.bint@uk.pkf.com</a>	Tel: 020 065 7851
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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 'R. Bint', written in a cursive style.

**Richard Bint**  
Partner  
PKF (UK) LLP

cc Bob Palmer, Director of Finance & ICT

cc Mrs M Peddle, Vice Chair of the Audit & Governance Committee