

Our reference South/MA202/AM

29 April 2010

David Petford
Chief Executive
Maidstone Borough Council
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Dear David

Annual audit and inspection fee 2010/11

I am writing to confirm the audit and inspection work that we propose to undertake for the 2010/11 financial year at Maidstone Borough 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. For inspection, it is based on the Comprehensive Area Assessment (CAA) framework and associated guidance. This is the responsibility of Claire Bryce-Smith, the CAAL and I have consulted with Claire on this element of the proposal.

As I have not yet completed my audit for 2009/10 the audit planning process for 2010/11, including the risk assessment, will continue as the year progresses and I will review and discuss my plans and fee proposals with you as necessary. The inspection plan will also be reviewed and updated as necessary by Claire in discussion with you.

Audit fee

I propose an indicative gross fee for the audit for 2010/11 of £116,490 which compares to our fee for 2009/10 of £109,020. A summary of this is shown in the table below.

Audit fee	Planned fee 2010/11 (£)	Updated fee 2009/10 (£)
Financial statements	88,406	80,572
Use of Resources/VFM Conclusion	26,184	26,530
Whole of Government Accounts	1,900	1,918
Gross audit fee	116,490	109,020

We have set our fees within the context of the Audit Commission's published work programme and scales of fees 2010/11. A copy of this document can be found on the Audit Commission's website. For comparison, the scale audit fee for Maidstone Borough Council is £122,621 (2009/10 - £115,894). The fee proposed for 2009/10 is 5% below the scale fee. The indicative audit fee assumes that the general level of risk in relation to the overall audit will not be significantly different from that identified in 2009/10.

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 Director of Resources & Partnerships and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

Financial statements

The increase in the financial statements element of the audit fee reflects the following key additional accounts risks which we have identified for 2010/11.

New accounts risk for 2010/11	Planned work	Timing of work
The 2010/11 financial statements will be produced in accordance with International Financial Reporting Standards (IFRS). The new standards will require restatement of both opening and closing balances from the previous year as well as additional disclosures. There is a risk that councils which are not well prepared for the new requirements will not succeed in preparing the necessary information in time.	We will monitor the Council's progress in introducing IFRS as set out in its implementation plan. We will undertake specific work to review the restated balances from 2009/10 and to review the treatment of complex transactions such as leases. We will assess your progress during the year and report back on the findings to your Audit Committee.	April 2010 – June 2011
The Council is due to enter a number of arrangements with other councils for the provision of various shared services. There is a risk that the accounting implications are not fully understood and addressed.	Review the accounting treatment of new joint working arrangements due to commence during the year.	April 2010 - June 2011

The implementation of IFRS will result in a number of significant and complex changes to the Council's accounting policies and to the format of its accounts. The work programme published by the Commission signalled a 6% increase from the previous year to take account of additional audit work arising from IFRS and this is reflected in my proposal. The Audit Commission's Chief Executive set out further background to this in his letter to the Council of 5 February 2010.

In terms of this significant change to your accounting framework, I would like to take this opportunity to remind you that those charged with governance within the Council are responsible for ensuring you are prepared for the introduction of IFRS. Although I do not have direct audit responsibilities in respect of balances at the transition date these do form the opening balances for the comparative period, I will therefore consider your risk assessment process and gap analysis to inform my ongoing risk assessment.

In recognition of the financial pressures that public bodies are facing in the current economic climate, the Audit Commission has decided that it should rebate the 'one-off' element of the cost of transition to IFRS that will arise in 2010/11, the year of transition. For Maidstone Borough Council this rebate will amount to **£7,357** and is due to be paid to the Council in April 2010. Changes in international auditing standards for 2010/11 will also increase the audit procedures I need to carry out. However, the Audit Commission has agreed to fully absorb the cost of these additional requirements within the fee.

I will issue a separate plan for the audit of the financial statements once my work is further advanced detailing audit risks identified at that stage, planned audit procedures and any change to the fee.

Use of Resources/VFM Conclusion

My use of resources assessment will be based upon the evidence from three themes: 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. My work on use of resources informs my 2010/11 value for money conclusion. However, I have identified some early risks in relation to my value for money conclusion. For each risk, I will consider the arrangements put in place by the Council to mitigate the risk, and plan my work accordingly. My initial risk assessment for value for money audit work is shown in the table below.

Risk	Planned work	Timing of work
The Council's ability to deliver its planned future level of service provision in light of both the local impact of the recession and anticipated reductions in central government funding.	We will review the Council's plan for closing the medium term funding gap and monitor progress throughout the year.	April 2010 – April 2011
The Council is due to enter a number of arrangements with other councils for the provision of various shared services. This can offer significant economies of scale but service performance, business continuity and contractual risks will need managing.	We will monitor the Council's progress in managing the associated risks as part of our continuous audit work.	April 2010 - July 2011

Inspection and other fees

A summary of other non-audit fees is shown in the table below.

Work	Planned fee 2010/11 (£)	Planned fee 2009/10 (£)
Certification of claims and returns	24,000	22,000
Inspection work		
Managing performance assessment	9,152	9,152
Total inspection fee	9,152	9,152

Claire does not currently anticipate undertaking any inspection work other than the managing performance theme of the organisational assessment. She will write to you if any significant amendments are needed to the inspection plan and fee during the course of the year, and any proposed changes would initially be discussed with you.

Outputs and other matters

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

The above fee excludes work the Commission may agree to undertake using its advice and assistance powers. Any such work would be separately negotiated and a detailed project specification agreed with you.

The key members of our engagement team for 2010/11 are:

Audit Manager	Steve Golding
Performance Specialist	Kamaljit Shergill
Team Leaders	Sarah Bubb and Mark Thomas

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 East Head of Operations, Neil Childs (n-childs@audit-commission.gov.uk).

Yours sincerely

Andy Mack
District Auditor

cc Zeena Cooke - Director of Resources & Partnerships,
John Horne - Chair of the Audit Committee

Appendix 1 – Planned outputs

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

Table 1 Planned outputs

Planned output	Indicative date
Opinion Audit Plan	April 2011
Interim audit memorandum (if appropriate, to the Director of Resources & Partnerships)	May/June 2011
Annual governance report	September 2011
Auditor's report giving an opinion on the financial statements and value for money conclusion	September 2011
WGA auditor's report	September 2011
Final accounts memorandum (to the Director of Resources & Partnerships)	October 2011
Housing and council tax benefits report giving key findings from our associated grant certification work (to the relevant head of service)	November 2011
Organisational assessment (incorporating the managing performance assessment and the use of resources assessment)	October 2011
Annual Audit Letter	December 2011
Certification of claims and returns – annual report	February 2012