

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO: Corporate Governance Committee

12 January 2011

AUTHOR/S: Head of Accountancy

AUDIT FEE PROPOSALS 2010/11 AND 2011/12

Purpose

1. To report on the proposed fees for internal and external audit for 2010/11 and 2011/12.

Recommendations

2. The report is for information and the Committee is asked to note the proposed audit fees.

Background

3. Local authorities are required by the Accounts and Audit Regulations to “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control”. Internal audit is defined as an assurance function that provides an independent and objective opinion to the organisation on the control environment by evaluating its effectiveness in achieving the organisation’s objectives. It objectively examines, evaluates and reports on the adequacy of the control environment.
4. Internal audit can be provided by in-house specialised staff or out-sourced to audit companies/partnerships. At South Cambridgeshire, the internal audit function has always been out-sourced and is currently provided by RSM Tenon based on the outcome of a competitive tendering process some five years ago. RSM Tenon report quarterly to this Committee on audits completed as part of the audit plan and report at the end of the financial year on the effectiveness of the system of internal control.
5. The external auditor’s responsibilities are to give an opinion on the financial statements including whether they give a true and fair view of the financial position of the audited body and its expenditure and income for the year in question and to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
6. External auditors are appointed by the Audit Commission and their fees are based on a scale of fees set by the Audit Commission but, as the year progresses, fees can be reviewed and updated as necessary, i.e. increased. The Council currently has no powers to negotiate the fee or to subject the work to competitive tender.
7. Internal and external auditors work together to avoid duplication.

Considerations

8. One of the responsibilities of this Committee is “to give assurance to the Council that there is a sufficient and systematic review of the corporate governance, risk management and internal control arrangements within the Council” and the main way

of achieving this is to have effective internal and external audit functions. A substantial reduction in the audit fee/function may prevent this Committee from being able to give such an assurance.

9. Internal audit fees are:

	Year	Fee	Number of days
Actual	2009/10	£79,873	270
Revised estimate	2010/11	£79,200	260
Proposed (estimated)	2011/12	£78,820	*250

* includes 4 days work previously done by external audit and 10 days contingency which may not be required

10. The internal audit fee is linked to the retail price index and the fee for 2011/12 will not be exactly known until April 2011.

11. External audit fees are:

	Year	Audit fee	Inspection fee	Grant claims (actual)
Actual	2008/09	£113,112	£7,609	£44,816
Original	2009/10	£114,500	£9,152	£34,623
Revised		£124,500		
Original	2010/11	£124,724	£9,152	
Revised		£110,884	£21,491	
Proposed	2011/12	£114,000		

12. A detailed analysis of the proposed fee has been provided by the external auditor and is attached as Appendix A.

13. The audit fees and the inspection fees are based on outputs which are the reports normally presented to this Committee and to Council; these fees are not based on the input of a set number of days. The fees for grant claims are based on hourly rates; the cost of grant claims in 2007/08 was £38,172 so most of the reduction from 2008/09 to 2009/10 is due to an increased charge in 2008/09.

14. The proposed audit fee for 2011/12 is about the same as 2008/09 in cash terms. However, the audit fee includes the cost of a value for money (vfm) conclusion which is charged a year in arrear so the 2010/11 audit fee includes the cost of the vfm conclusion for 2009/10. As 2011/12 is anticipated to be the final year of the Audit Commission, the proposed audit fee of £114,000 for 2011/12 includes the cost of the vfm conclusion for both 2010/11 and 2011/12 but this cost has not been specified.

15. The Audit Commission website includes an audit fee comparator tool and compared to other authorities in our comparator group for 2010/11, the Council's revised audit fee was the lowest of the five authorities which have a housing revenue account.

16. The draft medium term financial strategy anticipated a £25,000 reduction in the overall external audit fee for 2011/12 on the assumption of no further work on use of resources/vfm, with a further reduction of £33,000 in 2012/13 on the assumption that the work could be subject to competitive tendering.

Options

17. There will be options available when the current internal audit contract ends. The arrangements for replacing the Audit Commission with effect from 1st April 2012 have yet to be determined.

Conclusions / Summary

18. The Committee is requested to note the proposed fees and that the £25,000 saving being reported to Cabinet on audit and inspection fees in 2011/12 compared to 2010/11 is likely to be achieved.

Background Papers: the following background papers were used in the preparation of this report: Proposed work programme and scale of fees 2011/12 – Audit Commission

Contact Officer: Adrian Burns – Head of Accountancy
Telephone: (01954) 713076
<mailto:adrian.burns@scams.gov.uk>