

RIBBLE VALLEY BOROUGH COUNCIL

REPORT TO ACCOUNTS AND AUDIT COMMITTEE

Agenda Item No 8

meeting date: 30 MARCH 2011
title: EXTERNAL AUDIT FEES
submitted by: DIRECTOR OF RESOURCES
principal author: LAWSON ODDIE

1 PURPOSE

- 1.1 To inform members of the movement in the level of audit fees payable by this council in last, current and next financial years.

2 BACKGROUND

- 2.1 Each year the Audit Commission charge the council for the work that is included in their work programme. This is reported to this committee and is also included elsewhere on the agenda with regard to the audit for the 2010/11 financial year.

- 2.2 The audit fee is charged in respect of a number of elements of work, which change as the audit requirements and inspection regimes change. Current and past changes have covered the following areas:

- Financial Statements
- CAA Use of Resources/VFM Conclusion
- Whole of Government Accounts
- CAA Managing Performance
- Grant Work
- National Fraud Initiative (NFI)

- 2.3 The fee charged for the first three items listed above is based on a scale fee plus a percentage relating to gross expenditure. From 2011/12 the charge for these items will be changed to a simple scale fee with no itemised charge. This is at a time when most council's would have seen a reduction in their gross expenditure for 2011/12 as a result of the Government cuts to formula grant.

- 2.4 The other areas of work are charged for independently with a separate charge made for each area of work.

3 MOVEMENT IN EXTERNAL AUDIT FEES

- 3.1 A number of events, including change of government, have affected the level of audit fees that the council incurs. Most recently the abolition of the Comprehensive Area Assessment (CAA) has resulted in a reduction in some areas of the council's audit fees.

- 3.2 In the initial **base budget** for 2011/12, which was reported to Policy and Finance Committee in January 2011, the audit fees were included assuming that that there was no change in the audit fees other than the addition of 3% inflation (£131,810 for the total audit fee including grant work, CAA and NFI).

- 3.3 This charge was later reduced as part of the budget process following notification by the Audit Commission of the indicative charge for 2011/12 and following confirmation that there would be no further charges for Managing Performance work. The audit fees now included in the original estimate for 2011/12 are £115,850 including grant work and NFI.
- 3.4 The charge details for 2011/12, as provided by the Audit Commission, is not itemised between the different elements of the main audit fee as previously and therefore it is difficult to identify the reasons behind any movement in charge from that made in the current 2010/11 financial year. The table below provides a comparison of the audit charges for last year (2009/10), the current year (2010/11) and the proposed charges for 2011/12.

| Element | Actual 2009/10 £ | Revised Estimate 2010/11 £ | Original Estimate 2011/12 £ |
|-------------------------------------|------------------------|-------------------------------------|--------------------------------------|
| Financial Statements | 58,160 | 58,160 | |
| Financial Statements (IFRS) | | 5,420 | |
| CAA Use of Resources/VFM Conclusion | 27,664 | 26,000 | |
| Whole of Government Accounts** | 1,176 | 2,880 | |
| Less IFRS Rebate | 0 | -5,420 | |
| Total Main Audit Fee | 87,000 | 87,040 | 87,840 |
| <i>% movement between years</i> | | <i>0.05%</i> | <i>0.92%</i> |
| CAA Managing Performance | 8,317 | 0 | 0 |
| Grant Work | 30,654 | 25,100 | 25,850 |
| NFI | 0 | 2,100 | 2,160 |
| Total of all Audit Fees | 125,971 | 114,240 | 115,850 |

- 3.5 As can be seen from the table above there is a minimal change in the main audit fee, yet over this time period the government abolished the CAA. One element which has been impacted by this change is the 'CAA Managing Performance' charge which has now ceased but within the main audit fee it is assumed that there has been no reduction for the CAA Use of Resources/VFM Conclusion element.
- 3.6 Looking forward to the next financial year the Audit Commission has indicated that the scale fees that have been set as above will have resulted in a reduction of between 5 and 18 per cent. As can be seen, the main audit fee for this council increases by 0.92% for 2011/12. To achieve a 5% reduction in the audit fee it is assumed that the Audit Commission is disregarding the IFRS rebate that the council received in 2010/11 in the comparison of charges.
- 3.7 We have recently received further communications from the Audit Commission which indicates that following consultation on the charges they are now looking to further reduce the charges for 2011/12. It has been indicated that in total for all council's this will result in an overall 10 per cent reduction in charges. Although no individual council reductions have been identified at this time, it is anticipated that we will be notified in the summer.

- 3.8 The Audit Commission have also notified the council that, subject to the timetable for their abolition, they are committed to delivering further significant fee reductions of up to 15 per cent in 2012/13.
- 3.9 A letter has been sent (Annex 1) from this Council, on behalf of the Lancashire District Leaders Group, to the Secretary of State for Communities and Local Government following a strong consensus of opinion on the high level of audit fees at a recent meeting.
- 4 CONCLUSION
- 4.1 This council is very concerned that the indicative audit fees from 2011/12 have not reduced significantly in light of the abolition of the Comprehensive Area Assessment and Use of Resources.
- 4.2 There is also a strong consensus of concern across the Lancashire district that the audit fees chargeable for 2011/12 have not reduced substantially.
- 4.3 This council will continue to seek a significant reduction in its audit fees for 2011/12 and future years

HEAD OF FINANCIAL SERVICES

AA7-11/LO/AC
17 March 2011



RIBBLE VALLEY BOROUGH COUNCIL

Our ref: EMHR/LC/0225
Resources Fax: 01200 414432

Council Offices
Church Walk, Clitheroe
Lancashire BB7 2RA

25 February 2011

Tel: 01200 425111
Fax: 01200 414448
DX CLITHEROE 15157
www.ribblevalley.gov.uk

Dear Eric

External Audit Fees 2011/12

I have been asked to write to you on the above matter on behalf of the Lancashire District Leaders Group.

Despite the abolition of Comprehensive Area Assessments and Use of Resources, we have seen little, if any, reduction in our annual Audit Fees recently published by the Audit Commission.

We have also been told that these fees are no longer for negotiation with our District Auditors who we believe are best placed to understand both the workload and risk at a Local Authority level.

We are very disappointed that we continue to pay the same level of fees for what is clearly significantly less work. This appears to go against what the government is trying to achieve in reducing the inspection regime, reducing red tape and reducing bureaucracy to save money.

At a time when all public sector bodies are striving to reduce costs and eliminate waste, it is ironic that the Audit Commission clearly feels that the need to provide value for money applies to all but itself.

I've copied this letter to both the Audit Commission and the Local Government Association as we felt it necessary to let you know the strength of feeling on this issue.

Yours sincerely

A handwritten signature in black ink, appearing to read "Michael Ranson", with a horizontal line underneath.

Michael Ranson
Leader of the Council

cc: Audit Commission
Local Government Association

Rt Hon Eric Pickles MP
Secretary of State for Communities and Local Government
Eland House, Bressenden Place
LONDON
SW1E 5DU