

R Mawford
Chief Executive
Hastings Borough Council
By Email

19 April 2011

Dear Roy

Annual Audit Fee Letter 2011/12

We are writing to confirm the audit work we propose to undertake for the 2011/12 financial year at Hastings Borough Council. The indicative fee for the audit is £101,650, 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. We have discussed the indicative fee with Neil Dart and also the Audit Committee (at its meeting held on 21 March 2011).

As we have not yet completed our audit for the 2010/11 year, 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 our risk assessments, will continue as the year progresses and fees will be reviewed and updated as necessary. The Audit Commission has published the fees to be paid by local authorities in 2011/12 and Hasting's fee will amount to £101,650. 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	Actual fee 2009/10 £	Planned fee 2010/11 £	Estimated Fee 2011/12 £
Financial statements, including WGA	61,400	70,000	69,000
2009/10 Use of Resources work	39,500		
2010/11 Value for money conclusion		37,000	
2011/12 Value for money conclusion			32,650
Total Code audit fee	£100,900	£107,000	£101,650
Audit Commission Rebate (Approx.)	0	£(9,700)	TBA
Certification of claims and returns ⁽¹⁾	£52,145	£40,000	£40,000
Grant claims report to those charged with governance	£950	£950	£750

The indicative fee for the 2011/12 year 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.

We are anticipating a reduction in the fee for the certification of grant claims and other returns because the Internal Audit Section is due to assist us in completing the audit of the Housing and Council Tax Benefit Subsidies claim for the 2010/11 year. We are currently agreeing the scope of work to be completed by internal auditors and will update you and the Audit Committee in due course. There may therefore be a further reduction in the fee for the certification of grant claims and other returns.

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 the 2011/12 year has been determined by the Audit Commission and reflects a reduction for the lower ongoing audit costs after implementing IFRS. The full details are set out in the Audit Commission's document '*Work programme and scales of fees 2011/12*'.

The indicative audit fee has initially been set at the scale fee level. 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 Deputy Chief Executive and Director of Finance and, if necessary, prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

We will continue to work with officers to examine ways of reducing the audit fee. However, given the risks the Council must manage in 2011/12 and beyond, we do not anticipate the amount of fee reducing below the scale fee.

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.

Our initial assessment of indicative audit risks in relation to value for money audit work is shown in the table below.

Indicative key risk	Planned work	Timing of work
<p>Financial Performance and Efficiency Programme</p> <p>The Council is dealing with a challenging financial outlook, is reviewing its priorities in 2011 based on consultation with local people and is taking action to improve performance in certain services. The Government's grant settlement announced for Hastings in December 2010 indicates a reduction in its 'Formula Grant' of 14.8 per cent in 2011/12 and a cumulative reduction of 24.7 per cent (compared to the 2010/11 amount) by 2012/13. The Council estimates the reduction in formula grant to be £1.3 million in 2011/12 and a cumulative reduction of £2.2 million in 2012/13.</p> <p>To mitigate the loss of Formula and other Specific Grant income, the Council is due to receive transitional funding from the Government of £2.8 million in 2011/12 and a further £2.1 million in 2012/13. The amounts should assist the Council in further stabilising its financial position over the medium term.</p>	<p>Our VFM conclusion requires us to review the Council's arrangements for securing financial resilience. We will consider the Council's arrangements for preparing the 2011/12 and 2012/13 budgets and the further development of the medium term financial plan. We will review the Council's approach to identifying and responding to financial risks and opportunities and also review progress made towards efficiency plans and the financial stability of the Council over the medium term.</p> <p>We will also consider the extent to which financial plans support achievement of Council priorities where these have been updated in the year.</p>	<p>April 2011 – March 2012</p>

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 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 four equal instalments of £25,412.50 as shown below.

Month	£
June 2011	25,412.50
September 2011	25,412.50
December 2011	25,412.50
March 2012	25,412.50
Total	£101,650

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

Engagement Partner – Robert Grant

Email: robert.grant@uk.pkf.com
Tel: 020 7065 0170

Manager – Stuart Frith

Email: stuart.frith@uk.pkf.com
Tel: 020 7065 0000

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 me 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 Grant', with a stylized flourish at the end.

Robert Grant
Partner
PKF (UK) LLP

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N Dart, Deputy Chief Executive and Director of Finance
P Grace, Head of Finance
Councillor Wilson, Chairman of the Audit Committee