



23 April 2010

Mr Nadeem Aziz
 Chief Executive
 Dover District Council
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Email

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Dear Nadeem

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 Dover District 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 CAA Lead, and I have consulted with her 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

We propose an indicative fee for the audit for 2010/11 of £122,767 which compares to our planned fee for 2009/10 of £120,000. A summary of this is shown in the table below.

Audit fee	Planned fee 2010/11 (£)	Updated fee 2009/10 (£)
Financial statements	96,450	84,360
Use of Resources/VFM Conclusion	25,750	36,540
Whole of Government Accounts	1,800	1,800
Gross audit fee	124,000	122,700

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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 Dover District Council is £124,115.

In setting the fee at this level, I have assumed that the general level of risk in relation to the audit of the financial statements will not be significantly different from that identified in 2009/10. 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 changes in fee. 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 Corporate Services and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

The following are the key additional accounts risks which we have identified for 2010/11:

Audit of the accounts

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
There is a continued risk with regard to the recovery of investments held in Icelandic banks, and their valuation in the Council's accounts.	We will continue to monitor the position and discuss the valuation of the investment with finance staff.	April 2010 – June 2011
The Council plans to enter into 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.	We will 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. Our Chief Executive, Steve Bundred, set out further background to this in his letter to you 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 IFRSs. 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 Dover District Council this rebate will amount to **£7,456** 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.

Use of resources assessment

My use of resources assessments 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	We will monitor the Council's progress in managing the associated risks as part of our continuous audit work.	April 2010 - July 2011

service performance, business continuity and contractual risks will need managing.		
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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	35,335	36,785
Inspection work		
Managing performance assessment	9,152	9,152

Claire Bryce-Smith does not currently plan 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	Deborah Moorhouse
Performance Specialist	Gordon Brown
Team Leader	Sarah Bubb

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 Mike Davis, Head of Finance and IT
Dave Randall, Head of Governance
Councillor David Mayes, Chair of the Governance Committee
Claire Bryce Smith, Comprehensive Area Assessment Lead

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
Audit Opinion Plan	April 2011
Interim audit memorandum (if required, to the Head of Finance)	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 Head of Finance)	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