

## **BABERGH DISTRICT COUNCIL**

**FROM:** Corporate Director

**REPORT NUMBER** **E97**

**TO:** Overview and Scrutiny (Stewardship)

**DATE OF MEETING** 16 August 2005

### **AUDIT AND INSPECTION PLAN 2005/06**

#### 1. **SUMMARY**

- 1.1 In May the Committee instructed the Corporate Director to renegotiate an improvement in the fee arrangements for 2005/06 with the Audit Commission and to consider alternative suppliers for the 2006/07 audit. Some improvement in the fee level has been achieved.

#### 2. **RECOMMENDATIONS**

- 2.1 That in the light of the requirements on the District Auditor and the negotiations which have already taken place to reduce the audit and inspection fee for 2005/06, the Strategy Committee be recommended to approve the revised fee of £130,000.
- 2.2 That the Corporate Director write to the Chairman of the Audit Commission expressing the Council's concerns and highlighting the discrepancy between national announcements by the Audit Commission on fee levels and the reality of their proposals for this Council.

#### 3. **FINANCIAL IMPLICATIONS**

- 3.1 Prior to the Committee meeting on 17 May, officers had persuaded the Audit Commission to reduce their proposed fees for 2005/06 by £2,000. Following the instruction of the Committee to renegotiate a further reduction of £4,000, the Audit Commission have agreed to reduce their fees by a further £2,000.
- 3.2 A revised comparison of the Audit Commission's fees for 2005/06 with 2004/05 is set out below:-

	<b>2004/05</b>	<b>2005/06</b>	<b>Change</b>
	<b>£</b>	<b>£</b>	<b>%</b>
Audit	69,300	80,000	+15
Inspection	10,000	4,000	-60
Grant Claims	45,000	46,000	+2
	124,300	130,000	+4.6

- 3.3 The revised submission of £130,000 is £1,750 more than the provision made in the budget of £128,250; and so, if accepted by this Committee, the approval of the Strategy Committee will need to be sought.

#### 4. **KEY INFORMATION**

- 4.1 Despite national announcements by the Audit Commission that audit and inspection fees were to reduce, the Council received a proposal from the Audit Commission for an overall increase in the fee level for 2005/06 of £9,700 (7.8%). Officers negotiated a £2,000 reduction in that figure.

However, when the Committee considered the Audit Commission's Audit and Inspection Plan for 2005/06 on 17 May, the Committee resolved that:-

- “(1) Mr Kistner be instructed to renegotiate with the District Auditor with a view to:-  
(a) Moving towards a reduction of the fee to an overall 3% increase on the previous year.  
(b) Ensuring that the payment arrangements reflect the actual work completed.  
(2) Mr Kistner be instructed to consider alternative suppliers for the 2006/07 audit with a view to obtaining a substantially reduced fee and improved payment profile.”

4.2 Discussion and negotiation took place with three members of the Audit Commission on 21 June. As a result, they subsequently agreed to reduce the audit/grant claims certification fees by a further £2,000, which was less than the £4,000 requested. They also stipulated that the payment arrangements for the fees of 12 monthly instalments from April 2005 to March 2006 could not be changed as this had been set nationally following consultation and that payment on this basis was necessary to finance the Audit Commission's budget.

4.3 They also offered on 21 June to provide a reasonably detailed breakdown of the £80,000 audit fee, so that the Council could see what it was being asked to pay for and how much. However, that information has not been forthcoming so far, and so it is not possible to provide the Committee with a breakdown of the overall audit fee. Instead, the District Auditor has provided the following explanation for the 15% increase:

- 10% due to two specific risks we need to address, both of which were accepted, on a Suffolk-wide basis, by chief executives at the SCEG meeting in February 2005. These are e-access – arising from the issue of the development of the e-government programme and the need to assess the significant resources are being used in an effective manner – and the LAA (Partnership). The LAA is a key national risk, relevant to Babergh DC as the Council becomes more involved in more partnerships.
- 1.5% due to the BVPI work, where our Annual Audit Letters have recorded that the quality of BVPI information has caused problems over the last few years, and as I mentioned in my earlier e-mail the recent Internal Audit report seems to show that the problems persist. As well as reflecting revised guidance on the audit of BVPIs from the Audit Commission centrally, we are also relying on your assurances that arrangements will improve in order to reduce this element of the fee by £1,000 per my earlier e-mail.
- the remaining 3.5% is due to new requirements arising from the International Auditing Standards and our New Code of Audit Practice.

4.4 The District Auditor has also confirmed that there is a statutory mechanism under Section 7(4) of the Audit Commission Act 1998 for the Council to appeal against the fee to the Audit Commission if they and the Council cannot agree on the fee level. Both they and I would prefer not to have to follow that potentially time-consuming and costly approach, but I can do so if that is the wish of the Committee. Alternatively, I can write on behalf of the Council to explain the Council's concerns and dissatisfaction and to highlight the disparity between the Audit Commission's national announcements on fee reductions and the reality.

4.5 Finally, as regards the appointment of an external auditor, District Audit has been the appointed Auditor for this Council since 1974. The current appointment period ends with the Accounts for 2005/06. The Audit Commission will then consult the authority about their proposals for an appointment from 2006/07 onwards and then decide whether that should continue to be District Audit or a private sector auditor. The District Auditor has advised me that the Audit Commission are likely to:

- propose a one year extension to the current appointment of the District Auditor for 2006/07.

- embark on a major round of audit rotations for District Audit and the private sector from 2007/08.

5. **APPENDIX**

Audit Commission email of 2 August on discussions held on 21 June – Appendix 1.

6. **BACKGROUND PAPERS REFERRED TO**

None.

**CONTACT:** Geoff Kistner  
Corporate Director

**DIRECT LINE:** 01473 825810

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**From:** Paul King [paul-king@audit-commission.gov.uk]  
**Sent:** 02 August 2005 07:58  
**To:** Betchley, Amanda  
**Cc:** Kevin Sharman; Edwina Child  
**Subject:** RE: AUDIT AND INSPECTION PLAN FEES 2005/06 - MESSAGE FOR GEOFF KISTNER  
Geoff,

Thank you for your e-mail of last Wednesday concerning the proposed level of audit and inspection fees for Babergh DC for 2005/06.

I was away for part of last week, and was not able to discuss the issues with Kevin Sharman and Edwina Child until yesterday afternoon, so please accept my apologies for not having responded yesterday. I am out of the office shortly, but Kevin can clarify or expand on the following responses today if necessary. Taking your points in order:

- having followed up a number of points that we discussed at our meeting, I can say that we are able to offer a further reduction in the overall audit and inspection fee for 2005/06 (including the estimated fee for grant claims work). This would be a reduction of £2,000 made up of a reduction of £1,000 on the audit of BVPIs and £1,000 in the audit of grant claims.
- With respect to BVPI work I mentioned at our meeting that we were awaiting revised guidance on the audit of BVPIs from the Audit Commission centrally. Having now received the guidance and considered its applicability to Babergh, we do think that we can complete this work in less time than we originally estimated when putting together the 2005/06 plan. I should point out that we continue to have concerns about the underlying accuracy of PIs prepared by the Council, and Kevin is aware of a recent [draft] Internal Audit report on PIs that included a finding that the error rate of PIs they looked at was 52%.
- On grant claims work, Kevin has had a discussion with Gary and Bob and is working on a way forward to improve the efficiency of the audit. We are prepared to anticipate such an improvement in efficiency and therefore reduce our estimate accordingly. As you know, the actual fee for grants is less certain than for the other audit and inspection plan, as it is dependent on the number and value of claims prepared by the Council, and the accuracy of the claims when subjected to audit examination.
- I said that we would consider whether some form of breakdown of time was possible, given that we do not as a matter of course provide this to clients on the basis that it is our judgement on the amount of time, mix of staff required to meet the various professional and statutory responsibilities that we must work to. For 2005/06 there is the added complication of our having to conduct the audit to new professional Auditing Standards and meet revised responsibilities contained in the Audit Commission's new Code of Audit Practice. This makes a direct comparison with 2004/05 and earlier years impossible. But what I can say is that the overall amount of time is marginally less than 2004/05, but that this is offset by the impact of increased daily rates that we are given by the Audit Commission. Another factor is that, as you know, the Council's 'good' CPA rating is directly reflected in the amount of

inspection work that we plan to carry out (the CPA rating does not directly affect or influence the amount of audit work required). Hence there is a very significant reduction in the inspection element of the plan from 2004/05 to 2005/06, although as you may recall, inspection work benefits from a subsidy from the ODPM, and hence the actual fee reduction is proportionately less compared to the reduction in time spent on inspection work.

- I am awaiting a call on the precise arrangements for appointing external auditors, but in general the Commission centrally make appointments for a fixed period of time for all clients, and would consult with clients when proposing an appointment. When considering future appointments, the Commission will balance a number of factors, which will include the views of clients as well as broader market management issues such as the overall balance of audit appointments between the Audit Commission as a supplier and the firms, local market conditions and so on.
- Given the nature of the Commission's audit regime, there is a statutory mechanism (Section 7(4) of the Audit Commission Act 1998) for the Audit Commission centrally to determine an audit fee if it is not possible for a client and an appointed auditor to agree on the level of fees for any one year. I mentioned this mechanism at our meeting, and also to members at the earlier Committee meeting at which Kevin and I presented the 2005/06 Audit and Inspection Plan. As I said at our meeting, we would obviously wish to reach an agreement with the Council and avoid this route, given the time and cost involved, and the continuing uncertainty.

Overall, I think that we have been able to adopt a constructive approach to what I recognise is a contentious issue, and I hope that the proposed further reduction of £2,000 (on top of the earlier reduction we agreed in discussion) will enable us to agree the 2005/06 audit and inspection fees. I would also reiterate the point about looking at the proposed level of fees in comparison not just with 2004/05, but 2003/04. Over the three years the level of fees is effectively at a consistent level (the increase in 2005/06 over 2004/05 counterbalancing the reduction from 2003/04 to 2004/05).

I hope that this is helpful, and that it will prove to be acceptable to your Members as a reasonable outcome. It would be good to reach agreement so that we can concentrate on completing our 2004/05 audit work and progressing the 2005/06 work. But if there is anything you would like to clarify or discuss further, then as I mentioned Kevin is around for the rest of today, and I am available from tomorrow.

On a minor point, can I just let you know that my e-mail address is [paul-king@audit-commission.gov.uk](mailto:paul-king@audit-commission.gov.uk)

Regards,  
Paul

Paul King  
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**From:** Betchley, Amanda [mailto:Amanda.Betchley@babergh.gov.uk] **On Behalf Of** Kistner, Geoff

**Sent:** 28 July 2005 09:55

**To:** Philip King

**Cc:** Hunter, Barry; Kevin Sharman; Edwina Child

**Subject:** AUDIT AND INSPECTION PLAN FEES 2005/06

Dear Paul

At our meeting on 21 June, it was agreed that you would come back to me on the following issues, so that I could put a report together for the Overview and Scrutiny (Stewardship) Committee on 16 August:-

- Whether you were prepared to reduce the Audit and Inspection Fees by £4,000 for 2005/06. You were going to look at the requirements on you for the auditing of BVPIs and whether your input could be reduced on the audit of grant claims after discussions with Bob and Barry in particular about IT access to systems.
- You were going to provide a detailed breakdown of the intended audit time and cost so that both the Committee and myself could be better aware of what we are being asked to pay for.
- Information on the review arrangements for the appointment of an external auditor.

I have to complete the report for Committee by 4 August and so it would be very helpful if you were able to provide me with the above information by Monday, 1 August.

As you know, both the Committee and officers have strong views about the very significant increase in the Audit element of the fee and I do hope that you can come to a solution that enables that fee to be reduced by the £4,000 which the Council is looking for.

Geoff Kistner

Corporate Director

Tel: 01473 825810

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