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**Private & confidential**

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Our ref TWC-2009-10-AuditPlan

Contact Andrew Cardoza  
0121 232 3304

7 July 2009

Dear Victor

**Telford & Wrekin Council - Annual Audit Fee Letter 2009/10**

I am writing to confirm the audit work and fee that we propose for the 2009/10 financial year at Telford & Wrekin Council (the "Authority", "Telford & Wrekin"). The Audit Commission now requires that we produce this letter style audit strategy, in place of the more detailed audit and inspection plans that have been produced in previous years. Our proposals:

- are 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 2009/10; and
- reflect only the audit element of our work, and exclude any inspection and assessment fees which will be charged separately by the Audit Commission. Your Comprehensive Area Assessment Lead will be writing to you separately on these fees on behalf of the other inspectorates.

As I have not yet completed my audit for 2008/09 the audit planning process for 2009/10, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary. We will naturally keep you informed.

In determining your audit fee for 2009/10 we have had to paid particular attention to the guidance provided to us by the Audit Commission. The audit work of the Audit Commission and KPMG LLP as your appointed auditor is carried out in accordance with the provisions of the Audit Commission Act 1998, the Local Government Act 1999 and the Code of Audit Practice 2008 (the Code). Responsibility for the conduct of the audit remains, at all times, that of myself as your appointed auditor. Under section 7 of the Audit Commission Act 1998 and section 12 of the Local Government Act 1999, the Audit Commission has a statutory duty to prescribe scales of fees for the audit of accounts, and inspections. Before prescribing any scales of fees it consults local government representative associations, audited bodies, the Department for Communities and Local Government (CLG) and the accountancy profession. It has now consulted on the proposed fee scales for 2009/10 and the indicative fee scales for 2010/11 and 2011/12. The Audit Commission has considered the comments made during the consultation

and has agreed the scales of fees set out in its document: “*Work programme and scales of fees 2009/10 indicative fee proposals for 2010/11 and 2011/12 (Local government, housing and community safety)*”.

The Audit Commission has committed itself to continuing to publish the agreed fees for individual audited bodies on its website to assist audited bodies to compare their audit fees with those for similar bodies. The fee comparator tool on the website is intended to make the Audit Commission’s regime more transparent to audited bodies and other stakeholders. It can be accessed on the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

In addition when we were determining our 2009/10 fee for the Authority we took care to ensure that it also reflected our assessment of specific risks faced by the Authority. These risks include:

- the governance issues which currently exist; the recent and ongoing financial pressures on the Authority - due to the prevailing economic conditions and the Government’s latest Comprehensive Spending Review. We will review and comment upon, as appropriate, the Authority’s financial position as pressures on its resources develop together with consideration of how the Authority identifies alternative sources of financing for its capital programme;
- the changes to SORP - The Authority will need to review the changes once the SORP is finalised and we will need to work closely with its accountants to determine the additional work will be needed to ensure that its accounts comply with the totality of SORP requirements and we will discuss and review with officers their approach to the SORP changes once it is finalised and will specifically consider and comment upon the changes made as part of our 2009/10 audit of accounts;
- the delivery of and accounting for Building Schools for the Future (BSF) - The Authority will need to ensure that robust time bound project management is in operation throughout this project to ensure it achieves value for money in delivering the programme and we will monitor and comment upon the Authority’s progress in delivering BSF and Campus Telford and review whether it delivers value for money and that the Authority’s objectives are achieved; and
- the completion of Single Status – The timetable for implementation has slipped and the Authority recognises that the implementation of single status will have significant financial implications for it and especially in settling back pay claims and meeting ongoing increased payroll costs. As such we intend to review the Authority’s plans for implementation of Single Status, and the results of its latest pay modelling exercise and estimates of the resulting financial costs.

All of these risks were consider together with our experiences of working with the Authority to date and the Authority’s 2008 Use of Resources score for financial reporting. In response to these and in order to align all these various elements together with taking into account the Audit Commission’s guidance with regards to setting fees as per its publication: “*Work programme and scales of fees 2009/10 ...*” we have determined that the 2009/10 audit fee for Telford &

Wrekin Council should be in line with the “scale fee” (i.e. the fee as determined by the formula prescribed within the Audit Commission’s publication) for an authority of your size and complexity.

The proposed indicative fee – based on the “scale fee” formula – for the audit of 2009/10 should therefore be £270,000 (excluding grants claim certification – plus VAT). However, as discussed we have agreed to set the fee at £255,000, with 15 days of IFRS support spread over two years included within the audit fee. This compares to the planned fee of £215,000 for 2008/09, a summary of this is shown in the table below.

<b>Audit area</b>	<b>Planned fee 2009/10</b>	<b>Planned fee 2008/09</b>
Financial statements	£161,300	£137,000
Use of Resources/VFM Conclusion [approximately split 90% and 10% respectively - including risk based work]	£86,800	£72,500
Whole of Government Accounts	£4,200	£3,300
NFI	£2,700	£2,200
<b>Total audit fee</b>	<b>£255,000</b>	<b>£215,000</b>

We recognise that this is a significant fee increase. However, the current fee level at £215,000 the fee is 20% below the "mid point scale fee". This low level of fee would only be sustainable if Telford & Wrekin Council were an exceptionally high performing authority and was purely focused on the delivery of existing services rather than on regeneration initiatives, BSF and other such complex and risk laden activities. We previously agreed with you that we would attempt to fulfil our statutory obligations based on a fee that was and is significantly lower than the “scale fee”. Whilst we are satisfied that to date we have met and fully delivered our audit objectives with respect of the audit, we nevertheless have only been able to achieve this by KPMG underwriting the full and true cost of the audit. We are sure that you will understand that this situation is unsustainable from both a risk perspective and from the point of view of enabling us to fully ensure that we can continue to deliver our statutory audit obligations to you over the medium and longer term and therefore this cannot be sustained going forward and hence we must increase your fee to £255,000. This increase reflects the fact that it should be the "scale rate" fee that applies for an authority such as Telford & Wrekin and that it will be the “scale rate” fee that will apply to the 2010/11 audit year. In addition, as a gesture of goodwill and in acceptance of the difficult financial pressures that the Authority faces we do not propose to increase the fee for 2008/09 we have already agreed with you.

I have not included an estimated fee for the certification of grant claims and returns at this stage. I will write to Jenny Marriott, Audit & Risk Manager, separately and will provide an estimate of the fee when I have a better understanding of the likely scale of this work.

As stated above the indicative fee shown above is based on a number of assumptions, which I have summarised in Appendix 1 to this letter, and the Audit Commission’s publication setting out its work programme and scales of fees 2009/10 and as a result the “scale rate” fee for Telford & Wrekin Council as per the formula is £270,000. However, as stated above, the fee proposed for 2009/10 at £255,000 is therefore below the scale of fees for an authority of this size and complexity.

Notwithstanding this, I recognise that the audit fee for 2009/10 represents a significant increase on the previous year. However, in setting it at this level I have determined that the general level of risk in relation to the audit of the financial statements is not materially different from that at an authority of similar size and complexity. As stated above this reflects our assessment of specific risks, experience of working with the Authority to date and the Authority’s 2008 Use of Resources score for financial reporting. A separate plan for the audit of the financial statements will be issued in December 2009. This will detail the risks identified, planned audit procedures and any changes in fee; however an initial assessment of the risks is detailed in the table below. If I need to make any significant amendments to the audit fee during the course of the audit, as always I will first discuss this with you and then prepare a report for the Audit Committee, outlining the reasons why the fee needs to change.

The proposed fee also reflects the level of work we will perform in our Use of Resources assessment, which again is similar to that which would be performed at a typical authority of similar size and complexity. Our 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 2009/10. Our work on use of resources informs our 2009/10 value for money conclusion. However, I have identified a number of significant risks in relation to my value for money conclusion. For each risk, I will consider the arrangements put in place by the Authority to mitigate the risk, and plan my work accordingly.

Our initial risk assessment for the audit of the financial statements and value for money audit work is shown in the table below:

<b>Risk</b>	<b>Planned work</b>	<b>Timing of work</b>
The 2009 SORP will bring in changes to accounting requirements for the 2009/10 financial year. The Authority will need to review the changes once the SORP is finalised and determine what additional work will be needed to ensure that its accounts comply with the totality of	We will discuss with officers their approach to reviewing and responding to the SORP changes once the SORP is finalised and will specifically consider the changes made as part of our 2009/10 audit of accounts.	January –August 2010

As stated above the indicative fee shown above is based on a number of assumptions, which I have summarised in Appendix 1 to this letter, and the Audit Commission's publication setting out its work programme and scales of fees 2009/10 and as a result the scale fee for Telford & Wrekin Council as per the formula is £270,000. The fee proposed for 2009/10 at £255,000 is therefore below the scale of fees for an authority of this size and complexity.

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Risk	Planned work	Timing of work
<p>The Authority had planned to implement Single Status by the end of the 2008/09 financial year. This timetable has slipped however. Implementation can have significant financial implications for the Authority in settling back pay claims and ongoing increased payroll costs.</p>	<p>We will monitor, review and comment upon the Authority's plans for implementation of Single Status, and the results of its latest pay modelling exercise and estimates of the resulting financial costs.</p>	<p>June 2009 – March 2010</p>
<p>The Authority faces financial pressures due to the prevailing economic conditions and the Government's latest Comprehensive Spending Review. In response, the Authority has re-organised its management structure and reduced the number of portfolios from five to four in an attempt to reduce its cost base.</p> <p>In addition, several of the Authority's major capital schemes are dependent on capital receipts, the timing of which may now be jeopardised by the UK's current economic recession.</p>	<p>We will review and comment upon, as appropriate, the Authority's financial position as pressures on resources develop, and how the Authority identifies alternative sources of financing for its capital programme.</p>	<p>September 2009 – March 2010</p>
<p>The Authority has been awarded funding as part of the Building Schools for the Future (BSF) programme. It recently submitted its Outline Business Case for 'Campus Telford' which was approved by the Treasury.</p> <p>The Authority will need to ensure that robust project management is in operation throughout to achieve value for money in delivering the programme.</p>	<p>We will monitor and comment upon the Authority's progress in delivering BSF and Campus Telford and consider how it ensures that value for money and its other objectives are achieved.</p> <p>We will also review how the programme is accounted for in the 2009/10 statements.</p>	<p>June 2009 – August 2010</p>
<p>The Authority has recently completed construction of the Rail Freight terminal. We recognise that the Council intends for the terminal to be leased to a private company who will operate it and share profits with the Authority.</p> <p>The Authority will need to continue to monitor the operation of the terminal to ensure that the leasee fully delivers all the Authority's expected and desired objectives.</p>	<p>We will review the Authority's processes for monitoring the terminal and how it ensures that it is being operated in line with its objectives to ensure that these are fully delivered as expected and desired.</p> <p>We will also review and comment upon, as appropriate, how this is accounted for in the 2009/10 statements.</p>	<p>May 2009 – August 2010</p>

<b>Risk</b>	<b>Planned work</b>	<b>Timing of work</b>
<p>CIPFA has announced the timetable for the implementation of International Financial Reporting Standards (IFRS) in local government and confirmed that authorities will have to produce IFRS compliant accounts for 2010/11.</p> <p>This will require data to be collected in 2009/10 so that comparative figures for this year to be stated in these accounts.</p>	<p>We discuss and review with officers their project plan for implementation of IFRS and any areas that are likely to be challenging. We will also review and duly comment upon any advance work on changes to presentation of the accounts if this is made available to us.</p>	<p>June 2009 – March 2010</p>
<p>The Authority has recognised that its overall governance arrangements surrounding its Constitution and Member/Officer relations are not as strong as they should be.</p> <p>The Authority will need to ensure its Constitution is robust and fit for purpose and that Member/Officer relationships are rebuilt to ensure the smooth and effective operation of the Authority.</p>	<p>The Authority's constitution requires some significant work to ensure particular shortcomings and weaknesses identified recently are fully and properly addressed. Together with looking to improve Member/Officer relationships.</p> <p>We will carry out a review of the Authority's overall governance arrangements and pay particular attention to the two issues above.</p>	<p>Jan 2010 – March 2010</p>

I expect to issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 2.

The above fee excludes any additional work we may agree to undertake at the request of the Authority. Any such work will be separately discussed and a detailed project specification agreed with you before we commence work.

The other key members of our audit team for the 2009/10 audit are:

<b>Name</b>	<b>Role</b>	<b>Contact details</b>
Andrew Cardoza	Senior Manager	email: andrew.cardoza@kpmg.co.uk Tel: 0121 232 3304; Mobile: 07711 869957
Peter Evans	Assistant Manager	email: peter.evans@kpmg.co.uk Tel: 0121 232 3320



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 KPMG's national contact partner for Audit Commission work, Trevor Rees (trevor.rees@kpmg.co.uk).

If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet "*Something to Complain About*", which is available from the Commission's website ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)) or on request.

Yours sincerely

Michael McDonagh  
**KPMG LLP, Engagement Lead**

*Enclosures*

## **Appendix 1 – Audit fee assumptions**

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that at an authority of similar size and complexity;
- you will inform us of significant developments impacting on our audit;
- internal audit meets the appropriate professional standards;
- internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
- you will identify and implement any changes required under the CIPFA SORP within your 2009/10 financial statements;
- your financial statements will be made available for audit in line with the timetable we agree with you;
- good quality working papers and records will be provided to support the financial statements by the date we agree with you;
- requested information will be provided within agreed timescales;
- prompt responses will be provided to draft reports; and
- additional work will not be required to address questions or objections raised by local government electors.

Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the opinion audit plan.

Changes to the plan will be agreed with you. These may be required if:

- new residual audit risks emerge;
- additional work is required by the Audit Commission, KPMG or other regulators; or
- additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

## **Appendix 2: Planned outputs**

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

<b>Planned output</b>	<b>Indicative date</b>
Audit plan	May 2009
Financial statements audit plan	December 2009
Interim audit report	May 2010
Report to those charged with governance (ISA260 report)	September 2010
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2010
Use of resources report	September 2010
Annual audit letter	December 2010