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Mr P Clifford  
Chief Financial Officer  
Telford & Wrekin Council  
Civic Centre  
Telford  
TW3 4WZ

7 May 2010

Dear Paul

### **Annual audit fee 2010/11**

I am writing to confirm the audit work and fee that we propose for the 2010/11 financial year at Telford and Wrekin Council ('the Council'). 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 2010/11; 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 (CAAL) will be writing to you separately on these fees on behalf of the other inspectorates.

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 fees will be reviewed and updated as necessary. We will naturally keep you informed.

As per our 2009/10 fee letter and our discussions with you and the Audit Committee we agreed that the 2010/11 fee would be "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. This approach is consistent with the Audit Commission's guidance with regards to setting fees as per its publication: *"Work programme and scales of fees 2009/10 indicative fee proposals for 2010/11 and 2011/12 (Local government, housing and community safety)"*.

Therefore our proposed indicative fee for the audit for 2010/11 is £287,200 (plus VAT). This fee is in line with the Audit Commission's scale of fees for a council of Telford & Wrekin's size and includes one-off costs of £17,200 for the implementation of IFRS for which the Council will receive a full rebate from the Audit Commission. The comparable element of the fee with

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the prior year is therefore **£270,000**. The fee for 2009/10 is £255,000, which was 6% below the scale point.

From 2010/11, local authorities are required to prepare their accounts in accordance with International Financial Reporting Standards (IFRS). The transition to IFRS will increase auditors' work, particularly in the first year when the Council will need to restate the 2009/10 accounts on the new basis. Our fee for the audit of the financial statements has therefore increased in line with fee guidance issued by the Audit Commission. The Audit Commission will subsidise the cost of transition to IFRS for local authorities. The proposed subsidy for the Council is £17,200 which reimburses you our fees for this work.

A summary of this is shown in the table below:

<b>Audit area</b>	<b>Planned fee 2010/11</b>	<b>Planned fee 2009/10</b>
Financial statements	£174,500	£161,300
Use of Resources	£88,500	£86,800
Whole of Government Accounts	£4,300	£4,200
National Fraud Initiative	£2,700	£2,700
<b>Subtotal</b>	<b>£270,000</b>	<b>£255,000</b>
IFRS implementation	£17,200	-
<b>Total audit fee billed</b>	<b>£287,200</b>	<b>-</b>
Less: Audit Commission rebate for IFRS implementation costs	(£17,200)	-
<b>Actual audit fee net of rebate</b>	<b>£270,000</b>	<b>£255,000</b>

Our indicative audit fee is based on a number of assumptions, which I have summarised in Appendix 1 to this letter. We have increased our fee to that in line with the Audit Commission's published scale of fees for 2010/11 as I do not consider that the general level of risk in relation to the audit of the financial statements and the use of resources assessment is not materially different from that at an authority of similar size and complexity. A separate plan for the audit of the financial statements will be issued in February 2011. This will detail the risks identified, 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 Chief Financial Officer and then prepare a report for the Audit Committee, outlining the reasons why the fee needs to change.

The 2009/10 fee included provision for 15 days support for IFRS implementation over the two years 2009/10-2010/11. The balance of these will be provided in 2010/11.

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 use of resources assessment are set out in the Audit Commission's work programme and scales of fees 2010/11. Our work on use of resources informs our 2010/11 value for money conclusion. However, I have identified a number of risks which could impact on 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
<p><b>Council Reorganisation</b></p> <p>The Council underwent a major reorganisation in January 2010, replacing the previous Portfolio structure with Service Delivery Units and with Chief Officers responsible for the Council's revised priorities rather than portfolios.</p> <p>The Council will need to ensure that its revised structure generates the envisaged benefits with respect to cost reduction, improved performance and better customer service and outcomes.. It will also need to ensure that Governance arrangements are reviewed and revised to fit the new structure.</p>	<p>As part of our work on use of resources, we will take into consideration how the Council's new structure contributes to the Council's aim of procuring quality services tailored to local needs, to deliver sustainable outcomes and value for money.</p> <p>We will report our findings in our report to those charged with governance in September 2010.</p>	<p>April 2010-March 2011</p>

<p><b>Single Status</b></p> <p>The Council is progressing the implementation of Single Status and the resultant new pay structure and terms and conditions of employment. Inevitably there will be winners and losers and there is a risk that this will lead to high staff turnover and low staff morale.</p>	<p>We will monitor, review and comment upon the Council'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>We will also consider how the Council is engaging and supporting its staff during the implementation of Single Status.</p>	<p>April 2010-March 2011.</p>
<p><b>Capital programme</b></p> <p>The Council's capital programme over the medium term includes ambitious plans including a radical overhaul of the new town centre, regeneration of the traditional centres of the Borough, large scale house building and relocation from its current Civic Office headquarters.</p> <p>These plans are to a significant degree dependent on capital receipts from sale of assets such as the Civic Offices. The recent recession has had a significant negative impact on the sale of such assets and the market currently remains depressed.</p> <p>The Council will need to monitor its capital receipts and adapt its proposals should receipts not be realised in the timescale envisaged.</p>	<p>We will monitor the Council's capital receipts and review how it responds should these not arise as planned.</p>	<p>April 2010-March 2011.</p>
<p><b>Railfreight terminal</b></p> <p>The Council's newly constructed Railfreight terminal became operational during 2009/10 supported by a 3 year business plan.</p> <p>We understand the Council is in negotiation with a private company who are interested in using the terminal and acting as a major customer. The Council will need to secure major customers to meet the targets in this business plan.</p>	<p>We will review the Council'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>April 2010-March 2011</p>

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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 Council. Any such piece of work will be separately discussed and a detailed project specification agreed with you.

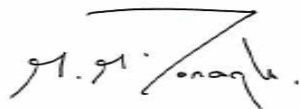
In addition to myself, the key members of our audit team for the 2010/11 audit are:

Name	Role	Contact details
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  
**Partner, KPMG LLP**

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

In setting the fee, I have assumed that:

- apart from the introduction of IFRS, the general level of risk in relation to the audit of the Council's financial statements is not significantly different from that identified for 2009/10;
- 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 2010/11 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 Council's 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 Council's 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 Council's Audit Committee.

<b>Planned output</b>	<b>Indicative date</b>
Financial Statements Audit plan	February 2011
Interim audit report	June 2011
Report to those charged with governance (ISA260 report) including use of resources report	September 2011
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2011
Annual audit letter	January 2012