

Peter Haywood
Chief Executive
Epping Forest District Council
Civic Offices
High Street
Epping
Essex
CM16 4BZ

Our ref: 4008927/2009-10/RSB/LJC

23 April 2009

Dear Peter

Annual Audit Fee 2009/10

We are writing to confirm the audit work that we propose to undertake for the 2009/10 financial year at Epping Forest 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 2009/10
- reflects only the audit element of our work, and specifically excludes any inspection and assessment fees. Your Comprehensive Area Assessment Lead will be writing to you separately on these fees on behalf of the other inspectorates.

As we have not yet completed our 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. The total indicative fee for the audit for 2009/10 is £137,000 which compares to the planned fee of £133,000 for 2008/09 and the actual fee of £156,000 for 2007/08. A summary of this is shown in the table below.

Audit fee

Audit area	Audit Plan fee 2009/10	Audit plan fee 2008/09	Actual fee 2007/08
Planning and Reporting	£28,100	£26,950	£25,553
Financial statements, including WGA	£74,000	£73,700	£97,840
Use of Resources/VFM Conclusion [including risk based work]	£34,900	£32,350	£32,607
Total Code audit fee	£137,000	£133,000	£156,000
Certification of claims and returns	£59,000	£61,120	N/A*

* This work was billed by the Audit Commission

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In setting the fee at this level, we have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2008/09 which, in turn, assumes that arrangements will have been improved from 2007/08. We have also assumed that the resource input for Use of Resources assessments will, overall, be at a similar level to 2007/08 although our data quality assessments, which now form an integral part of the Use of Resources assessment, reflect the increased level of work set out in the Audit Commission's Technical Guidance relating to the level of spot check work mandated for audited bodies – here a Medium risk assessment suggesting between 3 and 4 indicators in addition to the mandated benefits indicator. However, as the assessment framework is new and the methodology untested, we will liaise with you on our progress and discuss any issues with a possible fee impact with the Director of Finance and ICT should they arise.

A separate Audit Plan for the audit of the financial statements will be issued in December 2009. This will detail the significant accounts risks identified in relation to the audit of the financial statements, planned audit procedures 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 Director of Finance and ICT and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit and Governance Committee.

Our use of resources assessments will be based upon the evidence from three themes:

- Managing finances
- Governing the business
- 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 2008/09 value for money conclusion. Our risk assessment seeks to identify significant risks in relation to our value for money conclusion and, for each risk, consider the arrangements put in place by the Council to mitigate the risk, and plan our work accordingly. Our initial risk assessment for value for money audit work is shown in the table below:

Risk	Planned work	Timing of work
There is a risk that the Council may not have made sufficient progress against its plans to tackle Health Inequalities and may fail to meet the National Health Inequalities target in 2010.	We will undertake a separate review of the progress being made against the Health Inequalities action plan.	January 2010.

In addition to the significant risk identified above, our risk assessment also identified the following factors that, whilst not significant risks, merit audit emphasis. Accordingly we feel it appropriate to bring them to your attention at this stage:

- The implementation of the Academy IT system for revenues and benefits and the resulting backlog of benefit claims increases the risk of incorrect performance being reported that, under the new Use of Resources assessment, could impact on the score achieved. This also increases the risk of inaccuracy within the Housing Benefit Subsidy claim. The Council should keep the performance of the Benefits Section under review and implement controls to mitigate these risks.
- There were instances during the year where the Council did not comply with its own Treasury Management Strategy. Whilst controls have now been implemented to mitigate this risk, the non-compliance will be taken into account in the new Use of Resources assessment.

- There have been some long term sick and vacancy issues that are having an impact on capacity. This could have an overarching impact on the workforce planning element of the new Use of Resources assessment. More specifically, the Chief Internal Auditor has resigned and the first recruitment round to find his replacement was unsuccessful. Significant delays in filling this post could have significant implications for the effectiveness of the Council's internal control environment, and consequently the robustness of the Annual Governance Statement, as the vacancy could impact on the Council's ability to deliver the agreed Internal Audit Plan and provide a satisfactory Head of Internal Audit Opinion for the year. We will monitor this situation and consider its impact as part of our accounts risk assessment that we will report to you in the Audit Plan in December 2009.
- IFRSs are going to be implemented in 2010/11. The Council will need to consider this in 2009/10 as there will be a requirement to restate these figures as comparatives for 2010/11.

The above fee excludes improvement work we may agree to undertake using section 35 powers. Each piece of work would be separately negotiated and a detailed project specification agreed with you.

We will issue a number of reports relating to our work over the course of the audit. These are listed at Appendix 1.

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

- Director Lisa Clampin 01473 320716
- Supervisor Clare Beesley 01473 320781

Updated Audit Risk Assessment 2008/09

We have updated our audit risk assessment for 2008/09 to take into account:

- matters arising from the completion of the audit of your 2007/08 Accounts
- additional audit knowledge gained since our initial risk assessment which was included in our Annual Audit and Inspection Letter 2008/09, presented to the Audit and Governance Committee in June 2008.

The table below sets out the additional significant audit risks identified during our updated risk assessment.

Risk	Planned work
A new property management system is being implemented during the year and there is a risk that there may be a loss of data in the transfer, leading to a material misstatement.	We will review the controls that the Council has put in place to ensure the accuracy of the data transfer.
Due to the implementation of the Academy system and the backlog of unprocessed claims, there is a risk that the pressure on the Benefits Section could lead to a lapse in controls.	We will review the work undertaken by Internal Audit on the benefits system and ensure that the sample sizes are adequate, undertaking further testing where required.

To address these risks we have made adjustments to our audit testing strategy that we anticipate will not have any additional fee implications, therefore our proposed 2008/09 fee remains unchanged.

In addition to the significant risks identified above our updated risk assessment also identified the following factors that, whilst not significant risks, merit audit emphasis. Accordingly we feel it appropriate to bring them to your attention at this stage:

- The 2007/08 audit identified some immaterial, unreconciled balances in some material income streams. The Council should ensure that all significant income streams are reconciled by the year end to demonstrate that the accounts are not misstated.
- Due to the economic downturn it is expected that outstanding debts are now less collectable. This should be considered by the Council when estimating their bad debt provision.

We have set a triviality level of £48,000 for the 2008/09 accounts audit and will not report to you any matters arising below this level.

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 Richard Bint 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



Richard Bint
Partner
PKF (UK) LLP

cc Director of Finance & ICT

cc Chair of the Audit & Governance Committee

Appendix: Planned 2009/10 outputs

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

Planned output	Indicative date
Audit plan	December 2009
Annual governance report, giving the opinion on the financial statements and value for money conclusion	September 2010
Use of resources report (which supports the 2008/09 VfM conclusion)	October 2009
Annual audit letter	November 2010