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8 March 2010

Dear Barry

ANNUAL AUDIT FEE 2010-11

Further to our recent discussions with the Director of Corporate Support, I am writing to confirm the audit work that we propose to undertake for the 2010-11 financial year at Plymouth City Council. The proposed fee includes the audit elements of work carried out by us as your appointed auditors. This 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.

The fees relating to the “managing performance” theme that informs the Comprehensive Area Assessment (CAA) will be reported separately through your CAA Lead at the Audit Commission.

As we have not yet completed our 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.

The Audit Commission has published its work programme and scales of fees for 2010-11. It has defined the scale audit fee as the fee required by auditors to carry out the work necessary to meet their statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice. It represents the Audit Commission's best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.

The Audit Commission expectation is that the fee payable is the scale fee. Any variation to the scale fee needs to be justified on the grounds of more or less work being undertaken than is envisaged within the scale fee because of specific local factors or risks.

The scale fee for Plymouth City Council for 2010-11 is £335,978 (2009-10 £319,441), exclusive of VAT. The audit fee proposed for 2010-11 is in line with the above scale fee and compares to the planned fee of £319,441 for 2009-10. This represents an increase of just under 5.2%.

A summary of this is shown in the table overleaf.

Chartered Accountants

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Audit fee

| Audit area | Planned fee 2010-11 | Planned fee 2009-10 |
|--|------------------------|------------------------|
| Financial statements | 218,386 | 206,904 |
| Use of Resources/VFM Conclusion | 115,912 | 110,827 |
| WGA | 1,680 | 1,170 |
| Total audit fee | 335,978 | 319,441 |
| Certification of claims and returns (estimate) | 55,000 | 80,000 |

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 to 2009-10. A separate plan for the audit of the financial statements will be issued in late 2010, once the outcomes of the 2009-10 audit are known. This will detail the risks identified, planned audit procedures and any changes in fee.

From 2010-11, the Council will be required to prepare its accounts in accordance with International Financial Reporting Standards (IFRS). The transition to IFRS will increase our work, particularly in the first year when the Council needs to restate its previous year's accounts on the new basis, to provide prior year comparatives. The scale fee has been increased by 6% nationally to reflect the costs of this additional work. The Audit Commission has already confirmed its intention to offset this increase by a subsidy to cover the one-off element of the cost of the transition to IFRS. The Audit Commission will be writing to you separately to confirm the arrangements for payment of this subsidy.

The fee quoted for grant certification work is an estimate and will be charged based on the actual time required to audit each claim at prescribed rates set out in the Audit Commission's published work programme and scales fees guidance for 2010-11. If we need to make any significant amendments to the audit fee during the course of the audit, we will first discuss this with you and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

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

- managing finances;
- governing the business; and
- managing resources.

The Audit Commission is committed to carrying out a fundamental review of their approach to value for money work, including the use of resources, with a view to making changes with effect from 2010-11. Pending the results of this review, further details of the specified key lines of enquiry and the timetable for the 2010-11 assessments will be published as part of the use of resources guidance, on the Audit Commission's website. We will discuss any proposed changes to this approach with the Council, once these are known.

Our work on use of resources informs our 2010-11 value for money conclusion. However, we have identified a number of potential issues and risks in relation to our value for money conclusion. For each of these audit risks, we consider the arrangements put in place by the Council to manage this and, plan our work accordingly. Our initial assessment for our value for money audit work is shown in the table below:

| Issue | Planned response |
|---|--|
| <p>In the current economic climate, the Council continues to face a challenging revenue budget. Government funding is reducing, income streams are significantly reduced and demand for services remains high. Furthermore, the Council needs to manage the shortfall in its pension funding. However, the Council continues to be ambitious with its future plans. To address this, the Council will continue to reduce back office support functions and to allocate resources to improving front line services. The Council will need to manage this process effectively to ensure that there is no impact on front line services. Furthermore, there is a risk to the delivery of the Council's priorities if these real savings are not achieved or not considered to be on-going.</p> | <p>We will review the Council's budget setting process for 2010-11 including its efficiency saving programme, and budget monitoring and prioritisation during the year as part of the 'managing finances' theme.</p> |
| <p>IFRS will apply at local government bodies from 2010-11 onwards.</p> <p>Unlike the transition to IFRS for NHS bodies and probation boards/trusts, the Audit Commission has not received a request for auditors to consider the restatement of the balance sheet. Additional work beyond that to support the opinion on the financial statements will not be mandated by the Audit Commission. Our experience, working with the NHS shows that the transition to IFRS is a complex and time consuming process.</p> <p>We have had early discussions with the finance team on their process to date with their transition to IFRS and we agree that they are assessed as an amber risk with regard to successful implementation.</p> | <p>We will regularly review the Council's progress with IFRS implementation as part of the 'managing finances' theme.</p> |
| <p>The proposed capital programme for 2010-11 to 2014-15 is £267m. This programme includes strategic projects such as the Life Centre, capital investment in schools, waste disposal improvements and major transport improvements. As there is uncertainty around future capital receipts and future government funding, the Council is only approving schemes where specific funding has been clearly identified with a supporting business case.</p> <p>As identified in our 2009-10 audit fee letter, there remains a risk that, without adequate management of these projects, corporate objectives on regeneration will not be met, and the limited Council finances available may not be utilised effectively.</p> | <p>We will undertake a follow up review of our work on capital and project management as part of the 'managing finances', 'governing the business' and 'managing resources' theme.</p> |
| <p>The Department for Communities and Local Government has approved the Council's entry into the Building Schools for the Future programme with an estimated allocation of £80m. If the Council is successful in obtaining this funding then the legal and</p> | <p>We will review the management, procurement and governance arrangements in place for the Building Schools for the Future programme building on our knowledge from our</p> |

| | |
|---|---|
| procurement process and wide stakeholder involvement will need to be adequately managed in order to deliver part of the, 'developing high quality places to learn in' corporate improvement priority. | project management review undertaken in 2008-09. |
| Adult social care will continue to help people to live independently and to increase the number of residents who have a personal budget. The principle supporting personal budgets is that if users are given choice and control over their support they will buy, or request, personalised and more appropriate services. This could lead to improved outcomes and, potentially, cost savings. Adequate systems need to be in place for monitoring personal budgets, both to measure value for money outcomes and to ensure that adequate safeguarding processes are in place to prevent fraud and financial abuse. | We will review and monitor the Council's systems that are in place to record personal budgets, to assess if the key risks are being managed. This review will involve joint working between external and internal audit. |
| A significant current and future budget pressure facing the Council is adult social care. The Council faces the challenge of an ageing population as public spending reduces. The Council is intending to make significant changes to its service delivery through personalisation, integration with health and modernising services. The Audit Commission has recently published their report, 'Under Pressure' where it has identified that most councils do not know enough about the costs of their ageing populations. Furthermore, they may also miss the savings that could flow from preventive services and better work with other organisations. | We will review the transformation process for delivery of adult social care including the arrangements in place to ensure effective partnership working with other organisations. |
| From 2010, subject to legislation, local authorities will have a statutory duty to provide/commission learning places for pre-19 years olds. In addition, they will have a duty to secure sufficient provision for young people up to the age of 19 in their areas. By 2013 local authorities (LAs) will have a statutory duty to deliver full participation for all 17 year olds in education and training (rising to 18 year olds by 2015). There will be transition arrangements in 2009 and a gateway process to ensure LAs have capability to assume commissioning responsibilities. The change may lead to audit risks relating to controls put in place to manage and account for new resources, including the risk of financial misstatement. | We will review the Council's management arrangements in place to manage and account for the transfer of Learning Skills Council funding. We will use the work of Internal Audit, as far as possible, to complete this review. |

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

The proposed fee excludes any work requested by you that we may agree to undertake using our advice and assistance powers. Each piece of work will be separately negotiated and a detailed project specification agreed with you.

The key numbers of the audit team for 2010-11 are unchanged from the previous year and, their contact details are:

Barrie Morris - Engagement Lead 0117 305 7708

Lesley Whitworth - Audit Manager 0117 305 7753

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 the Head of Government Audit, Sarah Howard at sarah.howard@gtuk.com.

Yours sincerely

BARRIE MORRIS

Director and Engagement Lead

For Grant Thornton UK LLP

c.c. Adam Broome, Director for Corporate Support

c.c. Councillor Sam Leaves, Chair of the Audit Committee

Appendix 1: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Resources Scrutiny committee.

Table 1

| Planned output | Indicative date |
|--|------------------------|
| Audit Fee Letter 2010-11 | March 2010 |
| Financial Statements Plan | November 2010 |
| Interim Audit Report | April 2011 |
| Annual governance report | September 2011 |
| Auditor's report giving the opinion on the financial statements and value for money conclusion | September 2011 |
| Use of resources report | September 2011 |
| Annual audit letter | November 2011 |
| Grants certification report | December 2011 |