

24 April 2009

Mr Chris Bull
Chief Executive
Herefordshire Council

Direct line 0844 798 7562

Dear Chris

Annual audit fee 2009/10

Further to our discussions, I am writing to confirm the audit work that we propose to undertake for the 2009/10 financial year at Herefordshire 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; and
- reflects only the audit element of our work, excluding any inspection and assessment fees. Your Comprehensive Area Assessment Lead will be writing to you separately on inspection fees.

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.

The total indicative fee for the audit for 2009/10 is for £287,916 (exclusive of VAT) which compares to the planned fee of £284,361

for 2008/09. A summary of this is shown in the table below.

Audit fee

Audit area	Planned fee 2009/10	Planned fee 2008/09
Financial statements	141,826	140,075
Use of Resources/VFM Conclusion [including risk based work]	146,090	144,286
Total audit fee	287,916	284,361

In setting the fee at this level, I 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 2008/09. A separate plan for the audit of the financial statements will be issued later. 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 Director of Resources and then prepare a report outlining the reasons why the fee needs to change for discussion with the audit committee.

My 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. My work on use of resources informs my 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 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
<p>There are comparatively high costs for waste disposal and unless action is taken to amend existing contracts, the risks to the Council's future financial position will further increase. Although significant efforts have been made to move this forward in the last year, a variation to the existing contractual arrangement has not been agreed.</p>	<p>Review the strategy for the disposal of waste across Herefordshire and Worcestershire. This will include looking at the relationship with waste collection arrangements and progress towards an alteration to the existing PFI contract.</p>
<p>The Council has been making significant investment in ICT (through Connects) and also in innovative joint working with the PCT. There is a risk that the expected benefits from these are not fully realised. The Council is developing systems to monitor the realisation of benefits from these projects</p>	<p>We will undertake a joint review to track the Council's progress in managing the associated risks and ensuring expected benefits are delivered.</p>

<p>Managing workforce is a new element of the Use of Resources assessment starting in 2009/10. We need to gain an understanding of the effectiveness of these arrangements.</p>	<p>Review how the Council plans, organises and develops its workforce effectively to support the achievement of its strategic priorities.</p>
<p>Amey highways renegotiation of contract-we need to follow up the risk issues (e.g. performance review) identified at an earlier stage of the project to ensure they have since been addressed.</p>	<p>Follow up the recommendations from our 2008/09 report.</p>

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

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

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

Terry Tobin – Audit Manager 0844 798 7562

Martin Bell – Team Leader 0844 798 8789

I am 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 West Midlands Head of Operations, P-Jones ([@audit-commission.gov.uk](mailto:p.jones@audit-commission.gov.uk)).

Yours sincerely

Elizabeth Cave
District Auditor

cc David Powell Director of Resources

Appendix 1: Planned outputs

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

Table 1

Planned output	Indicative date
Audit plan	30 January 2010
Annual governance report	30 September 2010
Auditor's report giving the opinion on the financial statements and value for money conclusion	30 September 2010
Use of resources report	30 September 2010
Annual audit letter	November 2010
Waste management	March 2010
Review of implementation of Connects and joint working with the PCT.	March 2010
Review of workforce management and planning	March 2010