

Our Ref BM/JM - Exeter City Council

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24th February 2010

Dear Philip

ANNUAL AUDIT FEE 2010-11

Further to our discussions, I am writing to confirm the audit work that we propose to undertake for the 2010-11 financial year at Exeter 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.

This letter also includes fees relating to the managing performance theme that informs the Comprehensive Area Assessment (CAA). This element of the work will be undertaken and charged 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 ground 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 Exeter City Council for 2010-11 is £133,830 (2009-10 £123,844) 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 £117,652 for 2009-10.

Chartered Accountants

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The CAA Lead has informed us that inspection fees will be as follows:

- managing performance element of the organisational assessment is £14,405 less CLG funded grant resulting in a fee of £8,320; and
- the CAA Lead is proposing a risk based CAA inspection of strategic housing services in Devon in the year. The cost of this would be chargeable to the Devon Strategic Partnership and is likely to be in the region of £65,000.

A summary of this is shown in the table below.

Audit fee

Audit area	Planned fee 2010-11	Planned fee 2009-10
Financial statements	85,075	69,500
Use of Resources/VFM Conclusion	48,755	48,152
Total audit fee	133,830	117,652
Managing performance fee (charged separately by CAAL)	8,320	8,320
Certification of claims and returns (estimate)	20,000	20,000

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 quoted fee for grant certification work is an estimate and will be charged 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 Resources Scrutiny 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 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>The Government has announced that it will move ahead with legislation to create an Exeter unitary authority based on the existing city boundary. Devon County Council has pledged to contest this decision. The Council will need to work during a period of further uncertainty and within a challenging timetable to prepare for unitary status by 1 April 2011. Both the uncertainty and timetable present a number of risks to the Council that will need to be carefully managed..</p>	<p>We will continue to review the progress in delivering to this timetable and discuss specific audit work with the Council where required.</p>
<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. During the budget setting process the Council identified further cost pressures for 2010-11 as well as £1 million of revenue savings which need to be delivered to balance the budget. Monitoring of priorities and use of the budget to deliver services to the local population, will require close focus throughout the year and, where necessary, changes in resource allocations may be required.</p> <p>In addition, the Government has issued a consultation paper which sets out their proposals for the funding of concessionary travel in 2010-11. If the proposals are endorsed this will provide the Council with an additional £1.65 million of special grant. If this further grant is not forthcoming, then further savings will need to be identified.</p>	<p>We will review the Council's budget setting process for 2010-11 and, budget monitoring and prioritisation during the year, considering how effectively the budget is managed to maintain delivery of priorities where there are competing demands.</p>
<p>The Council was affected by the collapse of the Icelandic Banks. It held a £2 million deposit with Glitnir Bank which was due to mature in December 2008 and £3 million with Landesbanki which was due to mature in November 2008. On 10 December 2009 the Winding-Up Board of Glitnir reversed their previous decision to grant preferential creditor status to UK local authorities. The Council was not successful in an application to Government for a capitalisation directive to support the losses it is now exposed to as a result of this decision. This has put additional pressures on the Council's medium term financial plans.</p>	<p>We will, as part of our Use of Resources assessment under the 'Managing Finances' theme assess the impact of the decisions made in relation to the Icelandic bank investments on the Council's financial standing and how the revised value of these investments should be reflected in the Council's accounts.</p>

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

Julie Masci - Audit Manager 0117 305 7696

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. Andy Stark, Head of Treasury

c.c. Councillor Jeff Coates, Chair of the Resources Scrutiny 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
Annual Fee Letter	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