

**Our reference** HT

24 May 2010

Dr John Godfrey  
Chief Executive  
Sussex Police Authority  
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— Dear John

## **Annual Audit and Inspection Fee 2010/11**

Further to our discussions with the Authority Treasurer and officers, I am writing to confirm the audit work that we propose to undertake for the 2010/11 financial year at Sussex Police Authority. The fee is based on the risk-based approach to audit planning as set out in the Code of Audit Practice (the Code) and work mandated by the Audit Commission for 2010/11.

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.

Following extensive consultation the Audit Commission has published its work programme and scales of fees for 2010/11. The Audit Commission defines the audit scale 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. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks, and 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 anticipates an increase of 6% on average in audit scale fees due to the additional work that auditors are required to carry out to respond to the implementation of International Financial Reporting Standards (IFRS) in 2010/11.

In 2010/11 the Authority is required to prepare its accounts under the IFRS code. This requires significant changes to the basis of preparation of the accounts; including restating the 2009/10 balances as they form the comparative figures within the 2010/11 accounts. In response, I am required to re-audit the restated 2009/10 balances as well as audit the 2010/11 transactions and balances which will be prepared on the new IFRS basis. Officers reported the accounting implications surrounding this transition to the Corporate Governance Committee in March 2009.

In addition to the significant changes in the basis of preparation of the 2010/11 accounts, there are changes in international auditing standards which further increase the audit procedures I need to carry out in 2010/11. However, the Audit Commission has agreed to absorb all of the cost of those extra requirements within the audit fee.

At Sussex Police Authority, the actual increase in the scale fee for 2010/11 is 4.5%, compared to the anticipated 6% and the planned fee of £99,999 is 1% below the scale fee. In July 2009, in recognition of the financial pressures that public bodies are facing in the current economic climate, the Commission confirmed that it would subsidise the 'one-off' element of the cost of transition to IFRS for local authorities and police and fire and rescue authorities from 2010/11. The Commission issued a rebate in April 2010 of £6,141 against the audit fee shown below.

A summary of the indicative fee is shown in the table below.

<b>Audit fee</b>	<b>Planned fee 2010/11 £</b>	<b>Planned fee 2009/10 £</b>
Financial statements	74,764	70,650
Use of Resources/VFM Conclusion	22,885	23,585
WGA	2,350	2,350
<b>Total audit fee (1% below scale fee in 2010/11)</b>	<b>99,999</b>	<b>96,585</b>

In setting the fee for 2010/11, I have assumed that:

- you will inform us of significant developments impacting on our audit;
- internal audit continues to meet 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;
- the controls over your key material financial systems are operating effectively and we are able to place reliance on these controls for the purposes of our audit;
- good quality working papers and records will be provided to support the financial statements;
- requested information will be provided within agreed timescales; and
- prompt responses will be provided to draft reports.

Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

The specific opinion risks I have identified at this stage are set out in the table below:

Risk	Planned work	Timing of work
International Financial Reporting Standards will apply to the production of the Authority's financial statements for 2010/11. This will pose a recognised risk for all authorities and the adoption is likely to be challenging.	I will review the Authority's approach to the adoption of IFRS and will undertake my work to ensure that the Authority's financial statements comply with the new standards.	October 2010 – September 2011
On 13 October 2009 the Auditing Practices Board (APB) issued new clarified international standards on auditing (UK&I). The revised standards will apply to my audit of the Authority's financial statements for 2010/11.	I will undertake our audit of the financial statements under the new standards. This may mean additional work in some areas but this cost will not be passed on the Authority.	Ongoing throughout the year
The Force Financial accountant responsible for preparing the statement of accounts left in February 2010. Temporary finance staff are currently engaged in preparing the 2009/10 accounts.	I will consider the procedures the Authority has in place to ensure effective handover of information from 2009/10 accounts to enable the 2009/10 balances to be restated under IFRS.	Ongoing throughout the year

A separate opinion plan for the audit of the financial statements will be issued by March 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 Treasurer and then prepare a report outlining the reasons why the fee needs to change for discussion with the Corporate Governance 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 2010/11. My work on use of resources informs my 2010/11 value for money conclusion. The Audit Commission has recently announced a fundamental review of our current approach to value for money work including use of resources with a view to making changes from 2010/11. If, as a result, there is an impact on the planned fee I will discuss the changes with the Treasurer.

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 work 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 2010/11 are:

Audit Manager – Richard Smith	0844 798 6134
Local Performance Lead – Judy Holmes	0844 798 6119

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 South East Head of Operations, Neil Childs (n-childs@audit-commission.gov.uk).

Yours sincerely

Helen Thompson  
*District Auditor*

cc Richard Hornby, Treasurer, Sussex Police Authority

## Appendix 1: Planned outputs

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

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**Table 1**

<b>Planned output</b>	<b>Indicative date</b>
Opinion Audit plan	by March 2011
Annual governance report	September 2011
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2011
Annual audit letter	November 2011