

27 April 2009

Mr Martin Smith  
Chief Executive  
London Borough of Tower Hamlets  
Town Hall, Mulberry Place  
5 Clove Crescent  
London E14 2BG

**Direct line** 020 7166 2877  
**Email** j-hayes@audit-  
commission.gov.uk

Dear Martin

## **London Borough of Tower Hamlets Annual audit fee 2009/10**

Further to the discussions my staff have been having with yours, I am writing to confirm the audit work that we propose to undertake for the 2009/10 financial year at the London Borough of Tower Hamlets. 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, Adewale Kadiri, 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 £480,000 (exclusive of VAT) which compares to the planned fee of £442,000 for 2008/09. A summary of this is shown in Table 1 below.

**Table 1      Audit fee**

<b>Audit area</b>	<b>Planned fee 2009/10 (£)</b>	<b>Planned fee 2008/09 (£)</b>
Financial statements	310,000	276,000
Use of Resources/VFM Conclusion	161,500	158,000
WGA	8,500	8,000
<b>Total audit fee</b>	<b>480,000</b>	<b>442,000</b>
Certification of claims and returns	100,000	100,000

The Audit Commission has published its work programme and scales of fees 2009/10. The scale fee for London Borough of Tower Hamlets is £527,400. The fee proposed for 2009/10 is 9 per cent below the scale fee (1 per cent below in 2008/09).

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 by February 2010. This will detail the risks identified, planned audit procedures and any changes in fee. However, we are aware of the following risks at this stage:

**Table 2 Opinion risks**

<b>Risk</b>	<b>Response</b>
From 2010/11, local authorities will be required to prepare their accounts in accordance with international financial reporting standards (IFRS).	We will review the Council's arrangements for the transition to IFRS.
The current economic climate may give rise to further impairment of the Council's fixed assets and financial assets. The level of bad debtors may also increase.	We will review the appropriateness of estimation and valuation techniques employed by the Council to determine the value of its fixed, financial and current assets.
Professional standards require us to undertake a full review of internal audit every three years. The last full review was completed in 2006/07.	We will undertake a full review of internal audit against the standards specified by CIPFA.

The quoted fee for grant certification work is an estimate only and will be charged at published daily rates. 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 Use of Resources Framework Overall Approach May 2008. My work on use of resources informs my 2008/09 value for money conclusion.

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:

- Senior Audit Manager – Sharon Martin 020 7364 4783 or 07812 344672
- Audit Manager – Shona Milton 020 7364 4783 or 07812 157709

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 London Region Head of Operations, Les Kidner.

Yours sincerely

Jon Hayes  
*District Auditor*

**cc** Chris Naylor, Director of Resources  
Sharon Martin, Senior Audit Manager  
Audit Committee

## Appendix 1: Planned outputs

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

---

**Table 3**      **Planned outputs**

<b>Planned output</b>	<b>Indicative date</b>
Opinion audit plan	February 2010
Annual governance report	September 2010
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2010
Use of resources report	October 2009
Final accounts memorandum (to officers)	October 2010
Annual audit letter	November 2010