

10 May 2012

Mrs M Wathen
Marchwood Parish Council
Marchwood Village Hall
Village Centre
Marchwood
S040 4SX

Direct line 0844 798 2447

Dear Mrs Wathen

Marchwood Parish Council – Consultation on appointment of external auditor for 2012/13 and future years

I am writing to consult you on the appointment of BDO LLP to audit the annual return of Marchwood Parish Council for five years from 2012/13. The appointment would commence on 1 September 2012.

We announced on 19 March that the Audit Commission (the Commission) had completed the procurement for the provision of limited assurance audits for small bodies and awarded contracts to four audit firms.

We are proposing to appoint BDO to audit the annual returns of all small bodies in Hampshire and the Isle of Wight. This approach follows our established practice of grouping auditor appointments for small bodies by county areas.

BDO has over ten years' experience of auditing small bodies under the Commission's limited assurance regime. The firm has a team dedicated to limited assurance work to ensure regular communication with small bodies and availability to respond to queries.

Smaller relevant bodies, as defined by the Accounts and Audit Regulations 2011, whose gross annual income or expenditure is less than £6.5 million, are audited under the Commission's limited assurance approach. Appendix 1 provides further information on limited assurance audit and the scales of audit fees for 2012/13 to 2016/17.

The consultation process

The Commission has a statutory duty to appoint external auditors to local government bodies under Section 3 of the Audit Commission Act 1998. The Commission has a duty to consult local government bodies on the appointment.

If you are aware of any reason why the Commission should not appoint BDO LLP as your auditor please advise us by email to auditor-appointments@audit-commission.gov.uk or write to Marcine Waterman, Director of Audit Policy and Regulation by **Friday 29 June**.

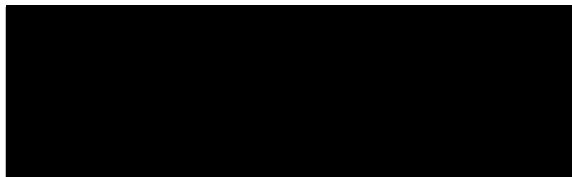
If your reasons are accepted, we will consult you on an alternative appointment. If they are rejected, there will be a further opportunity for you to make representations to the Managing Director, Audit Policy before the appointment is confirmed.

The Commission aims to confirm all proposed appointments by 31 August.

If you have any questions about the proposed auditor appointment please email us at auditor-appointments@audit-commission.gov.uk or call on 0844 798 2447.

You do not need to reply to this letter if you are content with the proposed appointment.

Yours sincerely



Andrew Davies
Senior Manager, Markets and Fees

Overview of the limited assurance audit approach and fees

Limited assurance audit

- 1 Small bodies are those with either annual income or expenditure below a financial threshold, as prescribed by the Accounts and Audit (England) Regulations 2011 (the Regulations). These set the threshold at gross annual income or expenditure of not more than £6.5 million.
- 2 As set out in schedule 1 to the Audit Commission's Code of Audit Practice, the accounts of small bodies are subject to a limited assurance audit.
- 3 The approach minimises the audit requirement on, and cost to, small bodies. The audit report provides a limited level of assurance to the body, in line with the work done and proportionate to the small amounts of public money involved.
- 4 The basic audit approach is common to all small bodies. The body completes and submits to the auditor an annual return plus key financial data. The auditor carries out a standard review and a limited number of tests. These tests include checking the internal consistency of the figures in the accounts, the year-end bank reconciliation and any unexpected variances. The auditor also reviews the annual governance statement. If everything is in order, the auditor issues an audit opinion and a certificate to close the audit.
- 5 For those bodies with gross income or expenditure over £200,000, auditors are required to carry out extra testing as part of their audit. This approach reflects the higher risk to public funds and is known as intermediate audit. Auditors also apply intermediate audit, at no extra cost, each year to a 5 per cent sample of bodies operating below the £200,000 threshold.
- 6 All small bodies are subject to limited assurance audit unless they elect to prepare accounts as a larger relevant body (LRB) under Regulation 12 of the Regulations.
- 7 More information on the limited assurance audit approach is included in the relevant Practitioners' Guide¹

Scales of audit fees

- 8 Scales of fees for small bodies are based on bands of annual income or expenditure, whichever is the higher. This means the fees are broadly proportionate to the public funds involved and the ability of the body to pay².
- 9 Table 1 sets out the scales of audit fees for five years from 2012/13 to 2016/17.

¹ Governance and Accountability for [local councils/internal drainage boards] – Practitioners' Guides (England) 2010: available from the National Association of Local Councils, the Society of Local Council Clerks or the Association of Drainage Authorities

² For more information on the scales of fees applicable to small bodies please see the Audit Commission's website (www.audit-commission.gov.uk)

Table 1: Scales of fees for bodies subject to limited assurance audit

Income/expenditure band (£)	Type of audit	Fee for limited assurance audit (£)
0 – 10,000	Basic	No fee payable
10,001 – 25,000	Basic	100
25,001 – 50,000	Basic	200
50,001 – 100,000	Basic	300
100,001 – 200,000	Basic	400
* 200,001 – 300,000	Intermediate	600
300,001 – 400,000	Intermediate	800
400,001 – 500,000	Intermediate	1,000
500,001 – 750,000	Intermediate	1,300
750,001 – 1,000,000	Intermediate	1,600
1,000,001 – 2,000,000	Intermediate	2,000
2,000,001 – 3,000,000	Intermediate	2,400
3,000,001 – 4,000,000	Intermediate	2,800
4,000,001 – 5,000,000	Intermediate	3,200
5,000,001 – 6,500,000	Intermediate	3,600

10 Audit fees for small bodies whose income or expenditure is above £200,000 and which elect to prepare accounts as an LRB will be agreed on an individual basis.

11 Extra fees may be charged in other circumstances, for example if the annual return is not completed properly or where auditors consider a valid objection to the accounts from a local elector. These fees are based on a schedule of maximum hourly rates, as set out in Table 2.

Table 2: Maximum hourly rates for additional work at small bodies

Staff grade	Maximum £ per hour		
	Standard	SE England	London
Engagement lead	325	345	380
Senior manager/manager	180	195	210
Senior auditor	115	125	135
Other staff	85	95	105

12 The fee scales exclude VAT which will be charged at the prevailing rate of 20 per cent on all work done.