

AUDIT COMMITTEE REPORT

13 DECEMBER 2012

AUDIT ARRANGEMENTS 2012/13
Report of the External Auditor, KPMG.



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Private & Confidential

Mr John Mothersole
Chief Executive
Sheffield City Council
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Pinstone Street
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Our ref tr/lh

22 August 2012

Dear Mr Mothersole

Audit Arrangements for 2012/13

As promised, I am writing to set out the arrangements for the audit of the 2012/13 financial year at Sheffield City Council. This letter sets out:

- Audit Personnel;
- The Indicative Audit Fee;
- Billing Arrangements; and
- Audit Quality.

Audit Personnel

We propose that the Engagement Lead for your audit will remain John Prentice, who is an experienced auditor joining KPMG from the Audit Commission. I have asked John to contact you in order to discuss any issues that you may have.

We have not yet allocated Managers or other team members to individual clients, but we will let you know once we have.

Indicative Audit Fee

Our proposals are 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. As the audit for 2011/12 has not yet been completed and we have not yet begun our appointment as your auditors, we will review and update fees as necessary. This will take account of the audit planning process for 2012/13, including the risk assessment. We will naturally keep you informed if there are any changes.

The indicative fee for the audit for 2012/13 is £286,160 (exc VAT) and its breakdown is shown below. These figures incorporate the reductions that the Audit Commission has been able to implement following the market testing of audit services. As you will know, from 2012/13 the Audit Commission is introducing a composite indicative fee for grant certification work for each body. The Commission has calculated the indicative fee based on actual certification fees for 2010/11, adjusted to reflect the fact that a number of schemes will no longer require auditor certification, and incorporating the general reduction to its fee scales.

Audit area	Indicative fee 2012/13
Code of Audit Practice audit	£247,860
Certification of grant claims	£38,300

The indicative fees are based on a number of assumptions, which I have summarised in Appendix 1 to this letter.

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 and certification work is not significantly different from that identified by your previous auditors for 2011/12.

A plan for the audit of the 2012/13 financial statements will be issued later this year. This will detail the risks identified, planned audit procedures and (if required) any changes in fee. 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.

The proposed fee excludes any additional work we may agree to undertake at your request. Any such piece of work will be separately discussed and a detailed project specification agreed with you.

Billing Arrangements

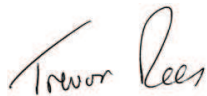
We are taking this opportunity to standardise the billing arrangements for all our audit clients and will bill for audit services quarterly in advance during the year of audit. As you will appreciate, no fees have been raised so far for the financial year 2012/13 so we will bill for the first two quarters on or around 1st September 2012.

Audit Quality

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 your nominated Engagement Lead in the first instance. Alternatively, you may wish to contact me in my role as KPMG's national contact partner for Audit Commission work.

If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet '*Something to Complain About*', which is available from the Commission's website (www.audit-commission.gov.uk) or on request.

Yours sincerely



Trevor Rees
Contact Partner for Audit Commission Work
KPMG LLP

cc: John Prentice

Appendix 1 – Audit fee assumptions

In setting the fee, we have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2011/12;
- you will inform us of significant developments impacting on our audit;
- internal audit meets 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;
- you will identify and implement any changes required under the CIPFA IFRS-based Code of Practice on local Authority Accounting within your 2012/13 financial statements;
- your financial statements will be made available for audit in line with the timetable we agree with you;
- good quality working papers and records will be provided to support the financial statements in line with our *prepared by client* request and by the date we agree with you;
- requested information will be provided within agreed timescales;
- prompt responses will be provided to draft reports;
- complete and materially accurate claims and returns are provided for certification, with supporting working papers, within agreed timeframes;
- the grant claims and returns requiring certification are as advised to us by the Audit Commission; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998. The fees for any such work will be agreed with you separately.

Improvements to the above factors may allow reductions to the audit fee in future years. Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the financial statements audit plan.

Any changes to our audit plan and fee will be agreed with you. Changes may be required if:

- new residual audit risks emerge;
- additional work is required by the Audit Commission, KPMG or other regulators; or
- additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.