

**AUDIT COMMITTEE REPORT**

**17 APRIL 2013**

**ANNUAL AUDIT FEE LETTER 2013/14**  
**Report of the John Prentice, Director,**  
**KPMG.**



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Mr J Mothersole  
Chief Executive  
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Town Hall  
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Sheffield  
S1 2HH

Our ref

20 March 2013

Dear John

**Annual audit fee 2013/14**

I am writing to confirm the audit work and fee that we propose for the 2013/14 financial year at Sheffield City Council. 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 we have not yet completed our audit for 2012/13 the audit planning process for 2013/14, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary. We will naturally keep you informed.

The proposed indicative audit and certification fees for 2013/14 are shown below. All fees are subject to VAT.

<b>Audit area</b>	<b>Planned fee 2013/14</b>	<b>Planned fee 2012/13</b>
Code of Audit Practice audit fee – Sheffield City Council	247,860	247,860
Certification of grant claims & returns	36,118	38,300

The audit fee is unchanged from the planned fee for 2012/13, and is in line with the scale fee recommended by the Audit Commission.

The Audit Commission has calculated the composite indicative fee for the certification of grant claims and returns. This is based on the Council requiring specific grants claims and returns to be certified. I will write to you later this year with more details on our certification work.

The indicative fees are based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not

the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. Our assumptions are set out in more detail in Appendix 1 to this letter.

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 and certification work is not significantly different from that identified for the 2012/13 audit. A more detailed audit plan will be issued later this year. This will detail the risks identified, planned audit procedures and (if required) 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 Executive Director of Resources and then prepare a report for the Audit Committee, outlining the reasons why the fee needs to change.

I expect to issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 2.

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

The key members of our audit team for the 2013/14 audit are:

<b>Name</b>	<b>Role</b>	<b>Contact details</b>
David Phillips	Senior Manager	david.phillips@kpmg.co.uk 0114 205 3055 or 0113 231 3623
Stuart Cutts	Assistant Manager	stuart.cutts@kpmg.co.uk 0113 231 3366

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 KPMG's national contact partner for Audit Commission work, Trevor Rees (trevor.rees@kpmg.co.uk).

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.

ABCD

**KPMG LLP**  
*Annual audit fee 2013/14*  
*20 March 2013*

Yours sincerely

John Prentice  
Director

cc: Laraine Manley, Executive Director Corporate Resources  
Eugene Walker, Director of Finance

## **Appendix 1 – Audit fee assumptions**

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2012/13;
- you will inform us of significant developments impacting on our audit;
- internal audit meets the appropriate professional standards;
- where we intend to rely on controls within key financial systems, internal audit undertakes appropriate work on those systems sufficient that we can place reliance for the purposes of our audit;
- you will identify and successfully implement any changes required under the CIPFA IFRS-based Code of Practice on Local Authority Accounting within your 2013/14 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 accurate claims and returns are provided for certification, with supporting working papers, within agreed timeframes; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations eg arising from disclosures under the Public Interest Disclosure Act 1998. Please note that there were two formal objections relating to your 2011/12 accounts, which resulted in additional work by us. We cannot yet know whether there will be questions or objections relating to your 2013/14 accounts.

Where these assumptions are not met, we will be required to undertake additional work and charge an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the detailed 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.

## Appendix 2: Planned outputs

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

<b>Planned output</b>	<b>Indicative date</b>
External audit plan	January 2014
Interim audit report	June 2014
Report to those charged with governance (ISA260 report)	September 2014
Auditor's report giving the opinion on the financial statements, value for money conclusion and audit certificate	September 2014
Opinion on Whole of Government Accounts return	September 2014
Annual audit letter	November 2014
Certification of grant claims and returns	December 2014

# Proposed work programme and scales of fees 2013/14

Local government and police bodies

December 2012





**The Audit Commission's role is to protect the public purse.**

**We do this by appointing auditors to a range of local public bodies in England. We set the standards we expect auditors to meet and oversee their work. Our aim is to secure high-quality audits at the best price possible.**

**We use information from auditors and published data to provide authoritative, evidence-based analysis. This helps local public services to learn from one another and manage the financial challenges they face.**

**We also compare data across the public sector to identify where services could be open to abuse and help organisations fight fraud.**

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# Introduction

1 This consultation document sets out the work the Audit Commission plans to undertake at local government and police audited bodies during 2013/14, with the associated [scales of audit fees](#). A separate consultation document covers the Commission's [work programme and scales of fees at NHS bodies](#).

2 The consultation does not cover small bodies subject to the limited assurance regime. Fee scales for small bodies were set in April 2012 for five years and are available on the [Commission's website](#).

3 We hope the information set out in this document is helpful to stakeholders in considering our proposals for the 2013/14 work programme and scale fees, as well as supporting audited bodies' financial planning.

## Background

4 In March 2012, the Commission announced significant reductions of up to 40 per cent in audit and certification fees from 2012/13 onwards, following an exercise to outsource the work of its in-house audit practice. These fee reductions were achieved as a combined result of the Commission's bulk purchasing power and internal efficiency savings.

5 When we announced the reductions, we said that we expect these lower fees to apply for five years, from 2012/13 to 2016/17, subject to annual review.

6 We plan to publish the final work programme and scales of fees for 2013/14 in April 2013. We have a statutory duty to consult before prescribing a scale of fees, and consult audited bodies themselves, where possible, as well as their representative associations, relevant government departments and the accountancy profession.

## 2013/14 fees

7 We do not plan to make any changes to the work programme for local government audited bodies for 2013/14. We therefore propose that scale audit fees are set at the same level as the fees applicable for 2012/13.

8 Fees for police bodies for 2012/13 reflected the increase in audit work arising from the changes introduced by the Police Reform and Social Responsibility Act 2011, requiring auditors to undertake audits of two statutory bodies in a police area from 2012/13, rather than one.

9 The 2012/13 overall fee for each police area, covering the audit of the police and crime commissioner and the chief constable, included an element for auditors' work on financial reporting requirements for the

transition from police authorities. We intend to remove this element for 2013/14, reducing the fee for the police and crime commissioner by a further 7 per cent.

**10** We will keep the scales of fees for the new police bodies under review, to ensure they are consistent with auditors' local assessment of audit risks.

**11** The Commission may approve variations to published scale fees for individual audited bodies, to reflect changes in circumstances or audit risks. These variations will apply to the fees for 2013/14 where the matter leading to the variation is of an ongoing nature.

## **Fees beyond 2013/14**

**12** We have made a commitment to review scales of audit fees each year, with the expectation that the significant audit fee reductions introduced from 2012/13 will apply until 2016/17. We expect to consult each year on the work programme and scales of fees before confirming fees.

**13** The Commission has reduced significantly in size, but will continue to oversee the contracts with audit suppliers and make auditor appointments.

**14** Draft legislation published by the government in July 2012 proposes closing the Commission by April 2015. The Commission's contracts with audit suppliers run until 2016/17, with a possibility of extension for up to three years. The responsibility for overseeing these contracts is expected to pass to a residuary body from April 2015.

## **Responding to this consultation**

**15** We welcome comments from stakeholders on the proposals contained in this document. Please send comments by email to [workandfeesconsultation@audit-commission.gov.uk](mailto:workandfeesconsultation@audit-commission.gov.uk) or to Jon Hayes, Associate Controller of Audit (Compliance), at the following address by **Friday 8 February 2013**:

Audit Commission  
1st Floor Millbank Tower  
Millbank  
London  
SW1P 4HQ

# Proposed work programme for 2013/14

## Audit

**16** Auditors tailor their work to reflect local circumstances and their assessment of audit risk. They do this by assessing the significant financial and operational risks facing the body, and the arrangements it has put in place to manage those risks.

**17** Under the *Code of Audit Practice* (the Code), the Commission may specify additional audit work which supplements the local risk-based approach to planning the audit. For 2013/14, the Commission will specify work on Whole of Government Accounts (WGA).

## National reports

**18** In 2013/14, the Commission will again publish a national report on the results of auditors' work. The report will cover the timeliness and quality of financial reporting and will summarise:

- auditors' work on the financial statements;
- auditors' work on the WGA returns;
- auditors' local value for money work;
- the public interest reports and statutory recommendations issued by auditors; and
- the key financial reporting and financial management challenges facing bodies.

**19** The report will cover local authorities, fire and rescue authorities, local police bodies, other local government bodies, internal drainage boards and parish councils.

**20** The Commission will also continue to publish the results of the annual survey of fraud in local government, in its *Protecting the Public Purse* report.

## Auditors' local value for money work

**21** Under the Audit Commission Act 1998, auditors must satisfy themselves about an audited body's arrangements to secure economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

**22** Auditors of single-tier, county and district councils, fire and rescue authorities and police bodies will apply a risk-based approach to their local value for money (VFM) work, giving a conclusion on the arrangements in place. The approach is based on two criteria, specified by the Commission:

- securing financial resilience; and
- prioritising resources within tighter budgets.

**23** Auditors of larger national parks authorities, waste disposal authorities, integrated transport authorities, passenger transport executives, joint committees, and other miscellaneous local government bodies will continue to apply a tailored approach to their local VFM work. The approach is based primarily on review of the annual governance statement, and any other specific work the auditor considers necessary.

**24** A VFM conclusion is not required for audited bodies with annual income or expenditure of less than £6.5 million, which are subject to limited assurance audit. This is in line with the threshold set in the Accounts and Audit (England) Regulations 2011 defining smaller relevant bodies.

**25** Where a body with annual income or expenditure of less than £6.5 million elects to prepare accounts as a larger relevant body, it is subject to a full Code audit including a VFM conclusion.

**26** Our website provides further [information about the VFM conclusion](#).

## **Certification work**

**27** As well as their work under the Code, appointed auditors, as agents of the Commission, certify certain claims and returns.

**28** In 2013/14, we will not ask auditors to certify individual claims and returns below £125,000. The threshold below which auditors will undertake only limited tests will remain at £500,000. Above this threshold, certification work takes account of the authority's overall control environment for preparing the claim or return.

## **Assessment and inspection work**

**29** Following the end of Comprehensive Area Assessment in May 2010, there is no longer any programme of mandatory inspection work. We do not envisage carrying out any inspections in 2013/14, unless specifically directed to do so.

# Proposed scales of fees for 2013/14

## Scales of audit fees for local government, police, and fire and rescue bodies

**30** We have reflected the cost of the work programme in the proposed scales of fees for 2013/14. The fees are based on the scale fees applicable for 2012/13.

**31** The proposed 2013/14 scale fee for each [local government](#) and [police](#) audited body is available on our website.

**32** The Commission has the power to determine the fee above or below the scale fee, where it considers that substantially more or less work was required than envisaged by the scale fee. The scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes.

**33** As the 2013/14 scale fees are based on the scale fee for 2012/13, they continue to reflect the auditor's assessment of audit risk and complexity. We would only expect variations from the scale fee to occur in 2013/14 where these factors are significantly different from those identified and reflected in the 2012/13 fee.

**34** The Commission can approve proposed variations to the scale fee, to reflect changes in circumstances, before or at the completion of the 2013/14 audit.

**35** We will keep the scales of fees for the new police bodies that have replaced police authorities under review to ensure they are consistent with auditors' local assessment of audit risks.

**36** The Commission will obtain updated fee information from appointed auditors, and explanations for any proposed variations from the scale fee on a regular basis. The Commission will consider the reasonableness of the explanations provided by auditors before agreeing to any variation to the scale fee.

**37** The Commission will charge fees for considering objections, from the point at which auditors accept an objection as valid, or any special investigations, such as those arising from disclosures under the Public Interest Disclosure Act 1998, as a variation to the scale fee.

## Pension fund audits

**38** The proposed scale fees for 2013/14 pension fund audits are the scale fees applicable for 2012/13. In line with the scale audit fees for all audited

bodies, we expect these lower fees to apply for five years, from 2012/13 to 2016/17, subject to annual review.

**39** The proposed [2013/14 pension fund audit scale fee for each relevant audited body](#) is available on our website.

## Certification work

**40** The Audit Commission Act 1998 requires the Commission to charge fees for certification work that cover the full cost of the work.

**41** Certification work fees for 2013/14 will comprise a composite indicative fee for each body, based on the latest certification fees, for 2011/12. Indicative fees will be adjusted for schemes no longer requiring auditor certification.

**42** The Commission will receive final fee information from appointed auditors for 2011/12 certification work in January 2013. Where the work required to complete certification is above or below the indicative fee level set for 2012/13, we will revise 2013/14 indicative certification fees accordingly.

**43** As the 2013/14 composite indicative fee is based on the latest certification fees available, it reflects the auditors' assessment of the work required. Therefore, we expect variations from the composite indicative fee to occur only where issues arise that are significantly different from those identified and reflected in the actual 2011/12 fee.

**44** The indicative fees for certification work are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate claims and returns, with supporting working papers, within agreed timeframes.

**45** The draft [2013/14 composite indicative certification fee](#) for each individual audited body is available on our website.

## Inspection fees for local government bodies

**46** We do not plan to undertake any inspections in 2013/14. Any risk-based inspections we are specifically directed to undertake will be charged on the basis of the fees set for 2010/11. This was the last year in which we undertook a planned programme of inspections. [The 2010/11 fees](#) are available on our website.

## Value added tax

**47** All the 2013/14 fee scales exclude value added tax (VAT), which will be charged at the prevailing rate of 20 per cent on all work done.



## Next steps

**48** Under section 7 of the Audit Commission Act, the Commission has a statutory duty to prescribe scales of fees for the audit of accounts. Before prescribing scales of fees, the Commission is required to consult relevant representative organisations.

**49** We welcome comments from stakeholders on the proposals contained in this document. Please send comments by email to [workandfeesconsultation@audit-commission.gov.uk](mailto:workandfeesconsultation@audit-commission.gov.uk) or to Jon Hayes, Associate Controller of Audit (Compliance), at the following address by **Friday 8 February 2013**:

Audit Commission  
1st Floor Millbank Tower  
Millbank  
London  
SW1P 4HQ

**50** Following responses to this consultation, the Commission's Board will approve the final 2013/14 work programme and scales of fees in March 2013, for publication in April 2013.

**51** If you have comments or complaints about the way this consultation has been conducted, these should be sent by email to [complaints@audit-commission.gov.uk](mailto:complaints@audit-commission.gov.uk).

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