



KPMG LLP
Audit
3 Assembly Square
Britannia Quay
Cardiff
CF10 4AX
United Kingdom

Tel +44 (0) 29 2046 8205
Fax +44 (0) 29 2046 8152
DX 742270 Cardiff 37
darren.gilbert@kpmg.co.uk

Mr P Gillett
Corporate Director of Resources
Gloucester City Council
North Warehouse
The Docks
Gloucester
GL1 2EP

Our ref TW/DG

18 December 2012

Dear Pete

Annual audit fee 2012/13

I am writing to confirm the audit work and fee that we propose for the 2012/13 financial year at Gloucester City Council. Our proposals are based on the risk-based approach to audit planning set out in the Code of Audit Practice and work mandated by the Audit Commission.

As we have not yet completed our audit for 2011/12 the audit planning process for 2012/13, 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.

Financial statements and VFM audit

The proposed fee for the audit for 2012/13 is **£139,500** (plus VAT) which is the same planned fee for 2011/12, excluding any overruns to be charged. We are proposing no reduction in the audit fee for 2012/13 from the original planned level for 2011/12. Our fee is based on our audit risk assessment reflecting the significant issues that have arisen during this year's audit, where we have identified a number of key control weaknesses in Council's control environment and a large number of material audit adjustments have come to light. Many of the issues that have emerged this year also have a bearing on the work we need to undertake for our VFM audit responsibilities as well.

We cannot confirm at this stage whether this planned 2012/13 audit fee will be sufficient to deliver our audit responsibilities. We will need to re-asses the controls implemented by Finance during this financial year, along with the quality of the working papers produced and the standard of the draft accounts for 2012/13. We will, of course, continue to work closely with your Finance team to ensure our audit is delivered as efficiently and effectively as possible. However, if issues emerge that may require us to vary the fee then I will discuss this with you.

Our fee is not in line with the scale fee of £83,700 recommended by the Audit Commission, which would represent a 40% reduction on the planned 2011/12 audit fee (i.e. before the additional charges incurred this year). Due to the factors mentioned above, and the risk assessment we have undertaken, we are unable to make this reduction in the fee. However, the proposed fee is still 8% lower than the planned fee (excluding overruns) charged in 2010/11, so we have maintained that reduction.

Certification of grant claims & returns

From 2012/13, the Audit Commission is replacing the previous schedule of hourly fee rates with a composite indicative fee for certification work for each body. The Commission has calculated an 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. Unlike with the accounts and VFM audit, I am content to reflect these general fee reductions in the Council's fee for certification work.

Based on these changes, I estimate that the fee for the certification of 2012/13 grants and returns will be £13,400 (plus VAT). This represents a £14,900 (53%) reduction on the planned certification fee for 2011/12, and is based on the Council requiring the following schemes to be certified:

- housing benefit & council tax benefit subsidy final claim;
- NNDR return; and
- pooling of housing capital receipts return.

Other matters

The indicative audit and certification 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. My assumptions are set out in more detail in **Appendix 1** to this letter.

A more detailed audit plan will be issued in early 2013. 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 you and then prepare a report for the Audit & Governance 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 Gloucester City Council. Any such piece of work will be separately discussed and a detailed project specification agreed with you.

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.

Yours sincerely



Darren Gilbert
Director

Appendix 1 – Audit fee assumptions

In setting the fee, I have assumed that:

- 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 listed above; 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.

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 revisited when we issue the external 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 & Governance Committee.

Planned output	Indicative date
External audit plan	February 2013
Interim audit report	June 2013
Report to those charged with governance (ISA260 report)	September 2013
Auditor's report giving the opinion on the financial statements, value for money conclusion and audit certificate	September 2013
Opinion on Whole of Government Accounts return	September 2013
Annual audit letter	November 2013
Certification of grant claims and returns	December 2013