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Director of Resources
Gloucester City Council
North Warehouse
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Our ref dg/tw

11 April 2013

Dear Peter

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 Gloucester 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.

| Audit area | Planned fee 2013/14 £ | Planned fee 2012/13 £ |
|--|--------------------------------------|--------------------------------------|
| Code of Audit Practice audit fee – Gloucester City Council | 139,500 | 139,500 |
| Certification of grant claims & returns | 14,100 | 13,400 |

The proposed fee for the audit for 2013/14 is the same planned fee for 2012/13. We are proposing to maintain the audit fee for 2013/14 at this stage. Our fee is based on our audit risk assessment reflecting the significant issues that arose during the 2011/12 audit, where we identified a number of key control weaknesses in Council's control environment and a large number of material audit adjustments.

At this stage it is too early to indicate whether the finance team will have implemented all the controls requested by us and internal audit, whether the quality of the working papers produced

are to the required standard set out in our Audit Protocol and whether the draft accounts presented to us for audit will be satisfactory for the 2012/13 audit.

As a result we are proposing to maintain our audit fee for 2013/14 and re-assess this after the 2012/13 audit is complete. Due to this, 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. Due to the factors mentioned above, and the risk assessment we have undertaken, we are unable to make this reduction in the fee at this time.

The Audit Commission has calculated the composite indicative fee for the certification of grant claims and returns. This 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 fee is 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.

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 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.

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

| Name | Role | Contact details |
|---------------|-------------------|---|
| Tara Westcott | Manager | Tara.westcott@kpmg.co.uk 0117 905 4358 |
| Sarah Webster | Assistant Manager | Sarah.webster@kpmg.co.uk 0117 905 4051 |

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:

- 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;
- 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 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 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 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 & Governance Committee.

| Planned output | Indicative date |
|---|------------------------|
| External audit plan | March 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 |