

ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS

1.	Meeting:	Audit Committee
2.	Date:	21st November, 2012
3.	Title:	External Audit Fees Letter 2012/13
4.	Directorate:	Resources

5. Summary

The Council's external auditor, KPMG LLP, has set out in its Annual Audit Fees Letter for 2012/13 (Appendix 1) the proposed external audit work to be undertaken in 2012/13 and indicative fee for carrying out this work.

The indicative fee for 2012/13 represents a substantial reduction of 40% compared to 2011/12 and is a welcome contribution towards the budget reductions the Council needs to make.

6. Recommendations

That the Audit Committee notes the scope of the 2012/13 audit and indicative fee for carrying out this work set out in the External Auditor's Annual Audit Fees Letter.

7. Proposals and Details

Indicative fee

Members will be aware that following a procurement exercise conducted as a result of the Government's decision to abolish the Audit Commission, KPMG's appointment as the Council's external auditor was confirmed for a further five years from 2012/13 until 2016/17. The current audit arrangements have been fixed for the duration of the contract with the aim of keeping audit fees fixed as low as possible.

KPMG's Annual Audit Fees Letter (attached as Appendix 1) sets out the proposed audit work to be undertaken in 2012/13 and indicative fee for carrying out that work.

As explained in the Fees Letter, the indicative fee of £186,300 is in line with expectations based on the Audit Commission's published work programme and scales of fees for 2012/13, and, reflects KPMG's current assessment of audit risk and complexity which is that the overall level of risk has not changed significantly from 2011/12. The Audit Commission have indicated that the indicative fee should remain for the duration of the five years of the contract unless additional work is required as a result of changes in legislation, professional standards or financial reporting, or, additional work is required by the Audit Commission or other regulators, or, there is a significant change in the risk assessment.

For the first time, the Audit Commission has also published an indicative overall fee for grant certification work. This is estimated to be £24,650.

As illustrated below, the combined fee for carrying out the 2012/13 audit and grant certification work represents a substantial reduction compared to 2011/12. The 40% reduction in the audit fee has been achieved by passing on to local authorities savings achieved as a result of the Audit Commission's procurement exercise. This is a helpful contribution towards the budget reductions the Council needs to make.

	2011/12	2012/13
	£	£
Audit	310,500	186,300
Grant Certification	75,000	24,650
Total fees	385,500	210,950

It should be noted that the fees do not cover any additional work that KPMG may be called upon to undertake to address questions or objections raised by local government electors.

Appendix 1 to the Fees Letter sets out a number of other assumptions in determining the indicative fee, most notably:

- Internal audit meets the appropriate professional standards and KPMG can place reliance on internal audit work on all systems producing material figures in the accounts
- Good quality working papers will be made available for audit within agreed timeframes which meet KPMG's expectations
- The financial statements presented for audit are complete and take account of changes to local authority accounting

We will endeavour as in previous years, to fully comply with these requirements.

Scope of audit

The main two elements of the external auditors planned work is in relation to the following:

- **Financial statements 2012/13** - KPMG will carry out the audit of the Council's 2012/13 financial statements in accordance with International Standards on Auditing and are required to issue an opinion on whether the financial statements 'give a true and fair view' of the financial position of the Council as at 31 March 2013 and its income and expenditure for the year then ended. This opinion is expected to be given by September 2013.
- **Value for Money Conclusion 2012/13** – KPMG are required to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. As in 2011/12, value for money work will be structured around 2 themes:

Theme 1: Assessing the Council's arrangements for securing financial resilience; and

Theme 2: Assessing whether the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources

The primary driver for reviewing financial resilience is the current, difficult financial climate that local authorities find themselves in and in particular the need to deliver an unprecedented level of financial savings over the next few financial years. KPMG expect to issue their VFM Conclusion for this work in September 2013.

In addition, external audit will also:

- **Interim Audit Review** - assess the adequacy of the Council's control and governance framework (including Internal Audit) underlying its published financial information so as to gain assurance of the robustness of its financial systems, processes and procedures. A report on this assessment is expected in May 2013.

In so doing, KPMG will consider whether the control and governance framework described in the Council's Annual Governance Statement is consistent with KPMG's knowledge and properly prepared in accordance with proper practice

- **Whole of government Accounts (WGA)** - KPMG will be required to review and report on whether the WGA consolidation pack is consistent with the Council's published financial statements and has been properly prepared. An opinion on the WGA is expected late September / early October 2013.

8. Finance

The 2012/13 indicative fee for the audit work is £186,300 plus £24,650 for grant certification work.

KPMG will issue a separate plan for the audit of the 2012/13 financial statements containing a more detailed risk assessment early in 2013. If any significant amendment to the level of fees is proposed, these will first be discussed with the Director of Finance, and brought to the attention of the Audit Committee outlining the reasons for any changes to the fee.

9. Risks and Uncertainties

The current, difficult financial landscape facing all local authorities brings with it a number of risks that will need to be effectively planned for and managed. The introduction of a new VFM audit approach focussing on financial resilience and prioritising resources within tighter budgets will provide an independent review of how well the Council has planned for and managed these risks. Being able to positively demonstrate this to KPMG will help the Council sustain its strong financial management and financial performance base.

10. Policy and Performance Agenda Implications

Good financial management and a strong financial performance are essential to the Council achieving improved corporate and service outcomes in accordance with its Corporate Plan priorities.

11. Background Papers and Consultation

Audit Commission – Work Programme and fee scales 2012/13
KPMG – Audit Fees Letter 2012/13

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