

AUDIT COMMITTEE

22 June 2015

ANNUAL AUDIT FEES 2015/16

REPORT OF CHIEF FINANCE OFFICER

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RECENT REFERENCES:

None

EXECUTIVE SUMMARY:

The External Auditors, EY have now presented their proposed indicative Annual Audit and Certification Fees for approval. The indicative fees for 2015/16 were published by the Audit Commission before it closed. The work set out in the fee letter covers the requirements of the Code of Audit Practice which applies to the 2015/16 audit.

The new audit arrangements require Auditors to have issued the fee letter to audited bodies and to send a copy of the letter to Public Sector Audit Appointments Ltd by the end of April. This was done and a copy of the letter was also sent to the Chair of the Audit Committee.

Representatives of Ernst & Young will attend the meeting to present their proposals and provide any points of clarification.

RECOMMENDATIONS:

That the Audit Committee approves the indicative annual audit fee for 2015/16.

AUDIT COMMITTEE22 JUNE 2015ANNUAL AUDIT FEES 2015/16REPORT OF CHIEF FINANCE OFFICER1. Introduction

- 1.1. The Indicative Annual Audit and Certification Fees for 2015/16 were notified to the Council in April. The audit fee covers the audit of the financial statements; value for money conclusion; and the Whole of Government Accounts audit work. There is also a fee for the certification of grants and claims.
- 1.2. The fee for the five years of the Audit Commission's contract with Ernst & Young was set at a fixed rate of £74,214 for each year's audit as part of the Audit Commissions 2012 procurement exercise. This fee has been reduced by a further 25% following the additional tendering of contracts in March 2014.
- 1.3. The fee for 2015/16 will be £56,336. This will be the new fixed fee which will only increase if the scope of Ernst & Young's audit responsibilities increases.
- 1.4. The indicative fee for the grants certification work is specific to each year, and is £10,535 for 2015/16. The Committee's attention is drawn to the assumptions the indicative fee is based on and the possibility of further fees.

OTHER CONSIDERATIONS:2. COMMUNITY STRATEGY AND PORTFOLIO PLANS (RELEVANCE TO):

- 2.1. Preparation of the Statement of Accounts is fundamental to the operation of the Council. Achieving corporate priorities must go in hand with accounting for how the public's money has been spent.

3. RESOURCE IMPLICATIONS:

- 3.1. Having outsourced the work of the Audit Commission audit practice and awarded the five-year contracts to four private sector firms, the Commission secured significant reductions in the cost of audit services. Together with further savings achieved through the Commission's own internal efficiencies, these reductions have been reflected in fees from 2012/13 onwards.
- 3.2. Due to the further tendering of contracts in March 2014 a further reduction in fees has been achieved (25% reduction to initial fees).

3.3. Where, exceptionally, an issue arises that requires the auditor to do additional audit work, for example to exercise their statutory reporting powers, this may result in a variation to the audit fee to reflect the costs of the work. The additional fee will then become payable by the audited body.

4. RISK:

4.1. The Budget has been set on the basis of the indicative fees notified, reflecting the savings in fees. It is possible that costs will increase when the contracts are re-tendered for 2017/18.

4.2. There may also be additional costs in relation to any additional work required either in responding to Electors or in relation to the consequences of the Judicial Review on Silver Hill.

5. BACKGROUND DOCUMENTS:

None

6. APPENDIX

Annual Audit & Certification Fees 2015/16 – Letter from Ernst & Young LLP

Simon Eden  
Chief Executive  
Winchester City Council  
City Offices  
Colebrook Street  
Winchester  
SO23 9LJ

9 April 2015

Ref: WCC/KH/Fee Letter

Direct line: 023 8038 2043

Email: KHandy@uk.ey.com

Dear Simon

## Annual Audit and Certification Fees 2015/16

We are writing to confirm the audit and certification work that we propose to undertake for the 2015/16 financial year at Winchester City Council.

Our 2015/16 audit is the first that we will undertake following the closure of the Audit Commission on 31 March 2015. Our contract will now be overseen by Public Sector Audit Appointments Ltd (PSAA), an independent company set up by the Local Government Association, until it ends in 2017 (or 2020 if extended by the Department of Communities and Local Government).

The responsibility for publishing the statutory Code of Audit Practice, under which we will conduct our audit work, has transferred to the National Audit Office.

### Indicative audit fee

The fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies, applying from 2015/16 audits.

The audit fee covers the:

- Audit of the financial statements
- Value for money conclusion
- Whole of Government accounts.

For the 2015/16 financial year the Audit Commission has set the scale fee for each audited body prior to its closure. The scale fee is based on the fee initially set in the Audit Commission's 2012 procurement exercise, reduced by 25% following the further tendering of contracts in March 2014. It is not liable to increase during the remainder of our contract without a change in the scope of our audit responsibilities.

The 2015/16 scale fee is based on certain assumptions, including:

- The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;
- We are able to place reliance on the work of internal audit to the maximum extent possible under auditing standards;
- The financial statements will be available to us in line with the agreed timetable;
- Working papers and records provided to us in support of the financial statements are of a good quality and are provided in line with our agreed timetable; and
- Prompt responses are provided to our draft reports.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee which is set out in the table below.

For Winchester City Council this fee is set at the scale fee level as the overall level of audit risk is not significantly different from that of the prior year.

As we have not yet completed our audit for 2014/15, our audit planning process for 2015/16 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

### **Certification fee**

The Audit Commission has set an indicative certification fee for housing benefit subsidy claim certification work for each audited benefits authority. The indicative fee is based on actual 2013/14 benefit certification fees and incorporating a 25 per cent reduction.

The indicative certification fee is based on the expectation that an audited body is able to provide the auditor with a complete and materially accurate housing benefit subsidy claim with supporting working papers, within agreed timeframes.

The indicative certification fee for 2015/16 relates to work on the housing benefit subsidy claim for the year ended 31 March 2016. We have set the certification fee at the indicative fee level. We will update our risk assessment after we complete 2014/15 benefit certification work, and to reflect any further changes in the certification arrangements.

## Summary of fees

	Indicative fee 2015/16 £	Planned fee 2014/15 £	Actual fee 2013/14 £
Total Code audit fee	56,336	75,115	80,447
Certification of housing benefit subsidy claim	10,535	11,311	14,047

Any additional work that we may agree to undertake (outside of the Code of Audit Practice) will be separately negotiated and agreed with you in advance.

## Billing

The indicative fee will be billed in 4 quarterly instalments of £16,717.75, from July 2015.

## Audit plan

Our plan will be issued in June, 2016. This will communicate any significant financial statement risks identified, planned audit procedures to respond to those risks and any changes in fee. It will also set out the significant risks identified in relation to the value for money conclusion. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Chief Finance Officer and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Audit Committee.

## Audit team

The key members of the audit team for the 2015/16 financial year are:

Kate Handy  
**Director**

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Mike Bowers  
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We are committed to providing you with a high quality service. If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, please contact me. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London, SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute.

Yours sincerely

Kate Handy  
Director  
For and on behalf of Ernst & Young LLP  
cc. Alexis Garlick, Chief Finance Officer  
Councillor Cutler, Chair of the Audit Committee