

AUDIT COMMITTEE

20 MARCH 2014

EXTERNAL AUDIT FEE

Report from: Mick Hayward, Chief Finance Officer

Summary

This report and attachment sets out the external auditor's fees for 2012/2013, together with the proposed fees and programme of work for the 2014/2015 financial year.

1. Budget and Policy Framework

1.1 Following the Council's decision to establish this committee, it is within the remit of this committee to take decisions regarding accounts and audit issues.

2. External Audit Fee 2012/2013

2.1 On 27 September 2013, this committee received the Annual Governance Report from the external auditor (BDO), which incorporated the findings following the 2012/2013 audit of the Statement of Accounts.

2.2 That report identified an indicative final audit fee of £231,410, which agreed with the fee as set out within the External Audit Annual Audit Plan 2012/2013 reported to this committee on 21 March 2013.

2.3 BDO is now able to confirm the final fee for the audit of the 2012/2013 financial statements amounts to £209,460. The attached letter (Appendix A) sets out an analysis by audit area. It is noted that the proposed Code fee for 2012/13 was set at £188,460 together with a planned supplement of £19,000 for risk areas as reported to the Audit Committee previously. Further additional work identified in the Annual Governance Report has now been confirmed with the Audit commission and the supplementary fee is now set at £21,000 – an increase of £2,000 against the planned fee.

2.4 In addition to the fees for the audit of the Statement of Accounts the final fee letter also incorporates an additional fee of £6,210 for the investigative work associated with the objection to the statement of Accounts from a local elector which was also referred to in the Annual Governance Report. In the event the objection was not upheld.

2.5 Finally the fee also includes the fee for work on certifying grant claims totalling in excess of £220 million. This was as planned at £23,950.

3. Proposed Fees and Programme 2014/2015

3.1 The Council's external auditors are also required to report to Member's their proposed fees and programme of work for the 2014/2015 financial year. Details are set out in Appendix B.

3.2 This fee is based on the work required under the Audit Commission's *Code of Audit Practice* and the external auditor's assessment of audit resource required to complete this work, taking into account the strength of your control environment, coverage of internal audit work and previous audit experience.

3.3 The proposed Code audit fee for 2014/2015 of £188,460, which reflects the Audit Commission indicative scale fee. It is noted that the proposed certification fee (£14,900) may be amended following a review of requirements by the Audit Commission currently underway.

4. Risk Management, Financial and Legal implications

4.1 The financial implications are set out in the attached appendices and will be met from within existing budgets. There are no significant risk management or legal implications arising from this report.

5. Recommendations

5.1 Members are asked to note the final External Auditor's 2012/2013 fee and the proposed fees and programme of work for the 2014/15 financial year.

Lead officer contact

Name Mick Hayward
Job Title Chief Finance Officer
Telephone: 01634 332220 email: mick.hayward@medway.gov.uk

Background papers

Annual Governance Report 2012/2013 report to Audit Committee 27 September 2013

<http://democracy.medway.gov.uk/ieListDocuments.aspx?CId=121&MId=2884&Ver=4>



Tel: +44 (0)20 7486 5888
Fax: +44 (0)20 7487 3686
DX 9025 West End W1
www.bdo.co.uk

Appendix A
55 Baker Street
London W1U 7EU

Councillor C Mackinlay
Chairman of the Audit Committee
Medway Council
BY E-MAIL

5 March 2014

Our ref: rg/MC05032014

Please ask for Robert Grant
Direct line: 020 7893 2895
Email: robert.grant@bdo.co.uk

Dear Councillor Mackinlay and Members of the Audit Committee

Audit of financial statements for the period ended 31 March 2013 - final fee

The Audit Commission's Standing Guidance to Auditors requires me to report the final fee for the year compared to the budgeted fee included in our Audit Plan. You will recall my annual governance report, presented to the Audit Committee on 27 September 2013, included a proposal to increase the fee for the audit of the 2012/13 financial statements. I have now concluded my discussions with officers and can confirm the final fee for the audit of the 2012/13 financial statements amounts to £209,460. The fee is £2,000 more than the planned amount and has been approved by the Audit Commission.

I also notified the Audit Committee I had received an objection to the 2012/13 financial statements from a local elector. My work on the objection was completed in January 2014 and the 2012/13 audit is now closed. The fee for my work on the objection is £6,210 and has been agreed with the Finance Director and approved by the Audit Commission.

The fee is analysed by audit area as follows:

AUDIT AREA	PLANNED FEE (£)	ACTUAL FEE (£)
Code audit fee		
Scale audit fee	188,460	188,460
Additional risk based work (audit plan)	19,000	19,000
Additional fee audit of accounts	-	2,000
Objection from local elector	-	6,210
Total audit fees	£207,460	£215,670
Certification of claims and returns	£23,950	£23,950

Yours sincerely

BDO LLP

Robert Grant
Partner
For and on behalf of BDO LLP

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MEDWAY COUNCIL

Planning Letter 2014/15

March 2014

PROPOSED FEES

Scope of the audit

We are required to report to you our proposed fees and programme of work for the 2014/15 financial year.

The fee is based on the work required under the Audit Commission's *Code of Audit Practice* ('Code') and our assessment of audit resource required to complete this work, taking into account the strength of your control environment, coverage of internal audit work and previous audit experience.

The Code audit fee covers:

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

The audit also includes certification of grants and returns on behalf of the Audit Commission.

Indicative fees

In October 2013, the Audit Commission published a consultation document setting out the work that auditors will undertake at local government bodies during 2014/15, with the associated scales of audit fees. The Commission plans to publish the final work programme and scales of fees for 2014/15 in March 2014.

The Commission has not planned to make any changes to the work programme for local government for 2014/15 and so the Code audit indicative fees have been set at the same level as the fees applicable for 2013/14.

The indicative fee does not include any time required to investigate questions or objections from members of the public. Should any arise, time spent dealing with questions and objections will be billed separately. Where possible we will provide an estimate of the likely time required to respond to the matters before starting the work.

The Audit Commission is currently reviewing the potential impact of changes in certification arrangements and the current indicative fees for this work are likely to be amended.

Fees

AUDIT AREA	PROPOSED FEE 2014/15 (£)	PROPOSED FEE 2013/14 (£)	ACTUAL FEE 2012/13 (£)
Code audit fee	188,460	188,460	⁽¹⁾ 215,670
Certification fee	14,900	22,400	23,950
Total audit fees	£203,360	210,860	£239,620

⁽¹⁾ The proposed Code fee for 2012/13 was set at £188,460. This was increased for the additional work required on financial statement audit risks (£21,000) and to respond to an objection from a local elector (£6,210).

Fee variations

The proposed Code audit fee for 2014/15 of £188,460 is not varied from the Audit Commission indicative scale fee. The proposed certification fee may be amended following a review of requirements by the Audit Commission currently underway.

A separate audit plan will be issued early in 2015 once we have completed our detailed risk assessment and the audit of the 2013/14 financial statements. This will detail the significant audit risks that we have identified and our planned audit procedures to respond to those risks.

If we need to propose any amendments to the audit fee during the course of the audit or where our assessment of risk and complexity are significantly different from those reflected in the proposed fee, we will first discuss this with the Finance Director and seek approval from the Audit Commission for a proposed variation of fee. If necessary, we will also prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

AUDIT ARRANGEMENTS

Planned outputs

We plan to issue the following reports and opinions over the course of the audit:

REPORT	DATE
Detailed audit plan	January 2015
Report on any significant deficiencies in internal controls, if required, based on the results of our interim audit visit	May 2015
Final report to those charged with governance	September 2015
Independent auditor's report including: <ul style="list-style-type: none">• Opinion on the financial statements• Value for money conclusion	September 2015
Whole of Government Accounts assurance statement and report to the NAO	October 2015
Summary of findings from the audit in the annual audit letter	October 2015
Grant claims and returns certification report	December 2015

Audit team

The key members of the audit team will be:

Engagement Lead - Robert Grant

email: Robert.grant@bdo.co.uk Tel: 0207 893 2895

Robert will be responsible for the overall delivery of the audit including the quality of outputs and liaison with senior management.

Engagement Manager - Kerry Barnes

email: kerry.barnes@bdo.co.uk Tel: 0207 893 2172

Kerry will manage and co-ordinate each aspect of the audit and will be the key contact with the Finance team.

Team Leader - Jody Etherington


email: jody.etherington@bdo.co.uk Tel: 0207 486 5888

Jody will lead the delivery of the financial statements audit.

Client satisfaction

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 Robert in the first instance. Alternatively, you may wish to contact our Managing Partner, Simon Michaels. Any complaint will be investigated carefully and promptly. If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales ("ICAEW").

In addition, the Audit Commission's complaints handling procedure is detailed in their leaflet "How to complain: What to do if you want to complain about the Audit Commission or its appointed auditors", which is available on their website <http://www.audit-commission.gov.uk/about-us/contact-us/complaints>



The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the council and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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