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Mr A North
Chief Executive
Cheltenham Borough Council
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Our ref

20 April 2011

Dear Andrew

Annual audit fee 2011/12

I am writing to confirm the audit work and fee that we propose for the 2011/12 financial year at Cheltenham Borough 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 for 2011/12.

As we have not yet completed our audit for 2010/11 the audit planning process for 2011/12, 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 fee for the audit for 2011/12 is £108,290 (plus VAT). This compares to the planned net fee of £111,363 for 2010/11 (after the Audit Commission rebate for transition to IFRS).

Audit area	Planned fee 2011/12	Planned fee 2010/11
Financial statements (including Whole of Government Accounts)	108,290	113,989
Follow up of Public Interest Report	-	5,000
Sub total	108,290	118,989
Less: One-off IFRS reimbursement by Audit Commission	-	(7,626)
Total audit fee	108,290	111,363

At this stage I estimate that the fee for the certification of 2011/12 grants and returns will be £25,000 plus VAT. As the amount of work will depend on a number of factors that cannot be predicted with certainty at this early stage, including the number and nature of the schemes which will require certification, I will provide an update to this estimate at a later date. I will

write to Mark Sheldon separately when I have a better understanding of the likely scale of this work.

The indicative fee is based on a number of assumptions, that I have summarised in Appendix 1 to this letter. The Audit Commission has published its work programme and scale of fees for 2011/12 and the scale fee for Cheltenham Borough Council is £113,040. The fee proposed for 2011/12 is 4% below the scale rates and 5% below the 2010/11 audit fees for the financial statements and assumes no further follow up work on the PIR. The 2011/12 scale fee reflects significant reductions from the new approach to the VFM audit, where the volume of work has reduced compared to the previous use of resources scored judgements regime. Fees have also reduced because some of the additional audit costs associated with the introduction of International Financial Reporting Standards last year are not present in 2011/12.

In setting the fee at this level, I have assumed that:

- the general level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2010/11, and
- the Go shared services project will not significantly impact on the 2011/12 audit as the planned transition is 1 April 2012.

A separate plan for the audit of the 2011/12 financial statements 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 the Director of Resources and then prepare a report for the Audit Committee, outlining the reasons why the fee needs to change.

In line with previous years, the 2011/12 audit fee will fund our VFM audit work during 2011, leading up to the VFM audit conclusion which we will issue in September 2011. The VFM audit will be the first under the Audit Commission's new approach and will be structured around two themes:

- Financial resilience (considering financial governance, financial planning and financial controls); and
- Prioritising resources within tighter budgets (considering arrangements for prioritising resources and improving efficiency and effectiveness)

The new audit approach was set out in the VFM audit plan that I presented to the Audit Committee in March 2011.

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 Cheltenham Borough Council. Any such work will be separately discussed and a detailed project specification agreed with you.

The key members of our audit team for the 2011/12 audit are:

Name	Role	Contact details
Rachael Tonkin	Manager	Rachael.tonkin@kpmg.co.uk 0117 905 4654
Megan Lumsdaine	Assistant Manager	Megan.lumsdaine@kpmg.co.uk 0117 905 4266

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



Ian Pennington
Director

cc: Mark Sheldon, Director of Resources

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 2010/11;
- Go shared services project does not significantly impact on the financial statements for the year ended 2011/12, with the control environment during the year or the efficiency for preparing for the audit in the Summer of 2012;
- 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 2011/12 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; 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 re-visited when we issue the financial statements 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 Committee.

Planned output	Indicative date
Financial Statements audit plan	January 2012
Interim audit report	June 2012
Report to those charged with governance (ISA260 report)	September 2012
Auditor's report giving the opinion on the financial statements, value for money conclusion and audit certificate	September 2012
Opinion on Whole of Government Accounts return	30 September 2012
Annual audit letter	November 2012
Certification of grant claims and returns	January 2013