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Chief Executive
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2 April 2015

Ref: LB Merton/fee15-16 letter

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Dear Ged

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 Merton Council.

Our 2015/16 audit is the first following the closure of the Audit Commission on 31 March 2015. Public Sector Audit Appointments Ltd (PSAA), an independent company set up by the Local Government Association, will now oversee our contract until it ends in 2017 (or 2020 if extended by the Department for 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, and which applies from 2015/16 audits.

The audit fee covers the:

- audit of the financial statements;
- value for money conclusion; and
- Whole of Government Accounts return.

For the 2015/16 financial year the Audit Commission set the scale fee for each audited body before 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 Merton 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 benefit certification fees for 2013/14 but incorporates 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 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, and 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	143,498	191,331	209,800
Certification of housing benefit subsidy claim	41,242	37,760	54,989

- the actual Code audit fee for 2013/14 included additional fees of £16,400 for the investigation and reporting in response to the whistleblowing allegations raised on use of contractors; £2,070 extra work on analytics data; and £2,600 for work on NDR. The actual fee for the certification of housing benefit subsidy claim included additional fees of £8,000 for completion of additional workbooks

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 audit fee will be billed in four quarterly instalments of £46,185.

Audit plan

We expect to issue our plan in March 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 Director of Corporate Services and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Audit and Standards Committee.

Audit team

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

Paul King Director	PKing1@uk.ey.com	Tel: 07974 757910
Michael Yeats Manager	MYeats@uk.ey.com	Tel: 07866 620240
Eli Johns Lead Executive	EJohns@uk.ey.com	Tel: 07778 110277

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



Paul King
Director
For and on behalf of Ernst & Young LLP

cc. Caroline Holland Director of Corporate Services
Peter McCabe Chair of the General Purposes Committee

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