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25 April 2019

Ref: Fee Letter/19-20

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Dear Ged

## Annual Audit 2019/20

We are writing to confirm the audit that we propose to undertake for the 2019/20 financial year at Merton Council and Pension Fund.

From 2018/19, local government and police bodies have been responsible for making their own arrangements for the audit of the accounts and reporting on the housing benefit subsidy claim.

The Secretary of State for Housing, Communities and Local Government has specified Public Sector Audit Appointments (PSAA) as an appointing person under provisions of the Local Audit and Accountability Act 2014. PSAA has appointed auditors for bodies that opted into the national scheme. Appointments were made for the duration of the five-year appointing period, covering the audits of the accounts for 2018/19 to 2022/23.

The appointment of an auditor to report on the Council's housing benefit subsidy claim is no longer covered by the PSAA appointment.

### Indicative audit fee

For the 2019/20 financial year, PSAA has set the scale fee for each opted in body. Following consultation on its Work Programme and Scale of Fees, PSAA has maintained scale audit fees at the same level as for 2018/19, unless there are specific circumstances which require otherwise.

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.

The audit fee covers the:

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

Our final fee will include the impact of additional risks and/or circumstances that are out of the scope of the scale fee, for example:

- The preparation of group accounts;
- Additional work performed on asset valuations, including the involvement of our valuation specialists;
- Additional work performed on the valuation of the net pension liability, including the involvement of our pension specialists; and
- Additional work arising from the implementation of IFRS 16 Leases.

At this stage, we have set the indicative fee at the scale fee basing it on certain assumptions, including:

- The overall level of risk in relation to the audit of the financial statements is not significantly different to that of the prior year;
- Officers meet the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion are unqualified;
- Appropriate quality of documentation is provided by Officers;
- There is an effective control environment; 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.

As we have not yet completed our audit for 2018/19, our audit planning process for 2019/20 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

#### Summary of fees

	Indicative fee 2019/20 £	Planned fee 2018/19 £
Scale Fee	110,493	110,493
Anticipated additional work on property, plant and equipment		5,000 – 15,000*
Anticipated additional work arising from change in materiality and clearance of audit queries		15,000 – 25,000*
Total Code audit fee		130,493 – 150,493
Non-audit services – Housing Benefits claim certification	TBC	20,000**
Non-audit services – Teachers' Pensions limited assurance	TBC	TBC
Pension Fund	16,170	16,170

\* For 2018/19 audit work we include a range of additional fees to reflect the additional work we will need to undertake in respect of the risks we have reported in this plan. We will confirm the exact additional fees as the audit progresses and seek agreement with management and PSAA.

\*\* The Council has engaged us as a reporting accountant for the 2018/19 Housing Benefit claim certification work. The final fee is dependent on the issues we identify.

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. All variations to the scale fee will be subject to PSAA approval.

**Billing**

We will bill the scale fee in 4 quarterly instalments of £27,623 for the Council and £4,043 for the Pension Fund.

**Audit plan**

We expect to issue our audit plan by January 2020. This will communicate any significant financial statement and value for money risks identified, planned audit procedures to respond to those risks and the estimated fee implications of these additional procedures. 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 communicate the revised fee and the matters giving rise to any adjustments to the scale fee in our Audit Results Report which we will present to the Standards and General Purposes Committee.

For a high level overview of our approach and further information on how we intend to work with you under the PSAA contract, please refer to our leaflet 'EY working with you' which is enclosed.

We remain 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, or Janet Dawson as our Government and Public Sector Assurance Leader at [jdawson1@uk.ey.com](mailto:jdawson1@uk.ey.com). If you prefer an alternative route, please contact Steve Varley, our Managing Partner, by writing to him at 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



Suresh Patel  
Associate Partner  
For and on behalf of Ernst & Young LLP

cc. Caroline Holland, Director of Corporate Services  
Councilor Peter McCabe, Chair of the Standards and General Purposes Committee.

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