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Private & confidential

Nadine Muschamp
Head of Financial Services
Lancaster City Council
Town Hall
Dalton Square
Lancaster
LA1 1PJ

Our ref 1718/AFL/LCC

Contact Christopher Paisley
0161 246 4934

21 April 2017

Dear Ms Muschamp

Annual audit fee 2017/18

I am writing to confirm the audit work and fee that we propose for the 2017/18 financial year at Lancaster City Council. Our proposals are based on the risk-based approach to audit planning as set out in the Code of Audit Practice and Public Sector Audit Appointments Ltd's (PSAA's) published work programme and fee scales.

Planned audit fee

The planned audit and certification fees for 2017/18 are shown below, along with a comparison to the prior year's fee. All fees are exclusive of VAT.

Audit area	Planned fee 2017/18	Planned fee 2016/17
Audit fee – Lancaster City Council	£58,388	£58,388
Certification of housing benefit grant claim	TBC	£7,740

PSAA has set the 2017/18 scale fees at the same level as for 2015/16 and 2016/17, thereby preserving the 25 per cent reductions in cash terms that were applied to those years which in turn were in addition to the savings of up to 40 per cent in scale audit fees and certification fees in 2012/13. This equates to a real terms saving of 61 per cent over this period. The 2017/18 planned fee is in line with the scale fee.

The PSAA has yet to publish its scale fee for the Certification of housing benefit grant claim. We will communicate this to you as soon as the PSAA publishes this information.

As we have not yet completed our audit for 2016/17 the audit planning process for 2017/18, 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.

Redistribution of Audit Commission surplus

PSAA plans, during the course of 2017/18, to make a distribution of surplus funds to principal local government and police bodies. The distribution is made possible by the transfer of an element of the Audit Commission's retained earnings prior to its closure in March 2015 and by PSAA continuing to generate surplus funds and make further efficiencies since its establishment.

This distribution will be made directly by PSAA and not via KPMG. Based on current information, PSAA anticipates that the amount of the redistribution is likely to be in the order of 15% of the scale fee.

Factors affecting audit work for 2017/18

We plan and deliver our work to fulfil our responsibilities under the Code of Audit Practice (the Code) issued by the National Audit Office (NAO). Under the Code, we tailor our work to reflect local circumstances and our assessment of audit risk. We do this by assessing the significant financial and operational risks facing an audited body, and the arrangements it has put in place to manage those risks, as well as considering any changes affecting our audit responsibilities or financial reporting standards.

Under the Code, we have a responsibility to consider an audited body's arrangements to secure economy, efficiency and effectiveness in its use of resources and to do this we will undertake appropriate value for money (VFM) audit work. The 2017/18 fees have been set on the basis that the NAO's Code and supporting guidance does not change the level of work required on the VFM audit. Should this not be the case, or if new or increased significant VFM audit risks arise that require further audit work, additional fees will be necessary over and above the scale fee. Any such additional fees will be subject to approval through PSAA's fee variation process.

Certification work

As well as our work under the Code, we will certify the 2017/18 claim for housing benefit subsidy to the Department for Work & Pensions (DWP).

The 2017/18 subsidy claim will be the final year for which PSAA will make arrangements for auditors to undertake housing benefit subsidy certification work. After the end of the transitional arrangements and the current audit contracts, PSAA has no legal power or remit in relation to assurance on claims or returns. The DWP is developing its own assurance arrangements from 2018/19 and has issued further

guidance directly to local authorities. We will liaise with the Council over the future approach to this work as details emerge.

There are no longer any other claims or returns that we are required to certify under the PSAA audit contract. Assurance arrangements for other schemes are a matter for the relevant grant-paying body, and may be the subject of separate fees and tri-partite arrangements between the grant-paying body, the audited body, and the auditor. We would be happy to discuss any such certification needs with you.

Assumptions

The indicative fees are based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. Our assumptions are set out in more detail in Appendix 1 to this letter.

In setting the fee at this level, we have assumed that the general level of risk in relation to the audit of the financial statements and certification work is not significantly different from that identified for the current year's audit. A more detailed audit plan will be issued early next year. This will detail the risks identified, planned audit procedures and (if required) any changes in fee. If we need to make any significant amendments to the audit fee during the course of the audit, we will first discuss this with you and then prepare a report for the Audit Committee, outlining the reasons why the fee needs to change.

We expect to issue a number of reports relating to our work over the course of the audit. These are listed at Appendix 2. A statement of our independence is included at Appendix 3.

The proposed fee excludes any additional work we may agree to undertake at the request of Lancaster City Council. Any such piece of work will be separately discussed and a detailed project specification agreed with you.

Beyond 2017/18

The 2017/18 audit will be the last under the current transitional arrangements whereby PSAA is responsible for managing the audit contracts novated to it from the Audit Commission upon its closure in March 2015.

For audits of the accounts from 2018/19, the provisions of the Local Audit & Accountability Act 2014 in relation to local appointment of auditors take effect. The Secretary of State for Communities and Local Government has specified PSAA as the

appointing person for principal local government and police bodies. PSAA will therefore appoint auditors and set scale audit fees for bodies that have opted into its national scheme.

Our team

The key members of our audit team for the 2017/18 audit are:

Name	Role	Contact details
Tim Cutler	Partner	Tim.Cutler@KPMG.co.uk 0161 246 4281
Christopher Paisley	Manager	Christopher.Paisley@KPMG.co.uk 0161 246 4934
Forget Chasakara	Assistant Manager	Forget.Chasakara@KPMG.co.uk 07917 780402

Quality of service

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact me and I will try to resolve your complaint. If you are dissatisfied with your response please contact the national contact partner for all of KPMG's work under our contract with PSAA, Andy Sayers (andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to:

Public Sector Audit Appointments Limited
3rd Floor
Local Government House
Smith Square
London
SW1P 3HZ

Yours sincerely



Tim Cutler
Partner, KPMG LLP

Appendix 1 – Audit fee assumptions

In setting the fee, we have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2016/17;
- you will inform us of significant developments impacting on our audit work;
- 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 Code of Practice on Local Authority Accounting within your 2017/18 financial statements;
- your financial statements will be made available for audit in line with the timetable we agree with you (note that 2017/18 is the first year in which the 'faster close' timetable applies whereby the deadline for draft accounts moves to the end of May and the deadline for publishing audited accounts moves to the end of July);
- 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;
- complete and accurate claims and returns are provided for certification, with supporting working papers, within agreed timeframes; 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.

Where these assumptions are not met, we will be required to undertake additional work and charge an increased audit fee. The fee for the audit will be re-visited when we issue the detailed 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 KPMG, PSAA, the NAO 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
External audit plan	January 2018
Report to those charged with governance (ISA260 report)	July 2018
Auditor's report giving the opinion on the financial statements, value for money conclusion and audit certificate	July 2018
Opinion on Whole of Government Accounts return	September 2018
Annual audit letter	October 2018
Certification of grant claims summary report	November 2018

Appendix 3 – Independence & objectivity requirements

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. The APBs Ethical Standard requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Further to this auditors are required by the NAO's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.

- Audit staff are expected not to accept appointments as Governors at certain types of schools within a local authority area.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

Confirmation statement

We confirm that as of April 2017 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.