



**LATE REPORTS, URGENT BUSINESS and SUPPLEMENTARY INFORMATION**

Audit Committee

Wednesday, 24 September 2008

*The following appendices were received too late to be included on the main agenda for this meeting and were marked 'to follow'. They are now enclosed, as follows:*

Agenda Item Number	Page	Title	Reason for Late Report	Officer Responsible For Report
7	1 - 19	STATEMENT OF ACCOUNTS 2007/08	Information was not available at the time of publication of the Agenda.	Head of Financial Services

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Infrastructure, Government & Healthcare  
St James' Square  
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M2 6DS

## Financial Services

### Nadine Muschamp Head of Financial Services

Town Hall  
Dalton Square  
LANCASTER LA1 1PJ

DX63531 Lancaster

24 September 2008

Dear KPMG LLP

I understand that auditing standards require you to obtain representations from management on certain matters material to your opinion. Accordingly I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of the Council, the following representations given to you in connection with your audit of the financial statements for Lancaster City Council for the year ended 31 March 2008.

All the accounting records have been made available to you for the purpose of your audit and the full effect of all the transactions undertaken by Lancaster City Council has been properly reflected and recorded in the accounting records in accordance with agreements, including side agreements, amendments and oral agreements. All other records and related information, including minutes of all member meetings, have been made available to you.

I confirm that I have disclosed all material related party transactions relevant to the Council and that I am not aware of any other such matters required to be disclosed in the financial statements, whether under FRS 8 or other requirements.

I confirm that I am not aware of any actual or potential non-compliance with laws and regulations that would have had a material effect on the ability of the Council to conduct its business and therefore on the results and financial position to be disclosed in the financial statements for the year ended 31 March 2008.

I acknowledge that I am responsible for the fair presentation of the financial statements in accordance with the Local Government Statement of Recommended Practice ("SORP") and wider UK accounting standards. I have considered and approved the financial statements.

I confirm that I:

- understand that the term "fraud" includes misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Misstatements resulting from fraudulent financial reporting involve intentional misstatements or omissions of amount or disclosures in financial statements to deceive financial statement users. Misstatements resulting from misappropriation of assets involve the theft of an entity's

**A "good" authority as rated by the Audit Commission**



INVESTOR IN PEOPLE

assets, often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation;

- am responsible for the design and implementation of internal control to prevent and detect fraud and error;
- have disclosed to you my knowledge of fraud or suspected fraud affecting the Council involving:
  - (i) management;
  - (ii) employees who have significant roles in internal control; or
  - (iii) others where the fraud could have a material effect on the financial statements.
- have disclosed to you my knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others; and
- have disclosed to you the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud.

I confirm that the presentation and disclosure of the fair value measurements of material assets, liabilities and components of equity are in accordance with applicable reporting standards. The amounts disclosed represent my best estimate of fair value of assets and liabilities required to be disclosed by these standards. The measurement methods and significant assumptions used in determining fair value have been applied on a consistent basis, are reasonable and they appropriately reflect my intent and ability to carry out specific courses of action on behalf of the Council where relevant to the fair value measurements or disclosures.

I confirm that there are no other material contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than that already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements.

Finally, no additional significant post balance sheet events have occurred that would require additional adjustment or disclosure in the financial statements, over and above those events already disclosed.

This letter will be tabled at the meeting of the Audit Committee on 24 September 2008.

Yours faithfully



**NADINE MUSCHAMP**  
**HEAD OF FINANCIAL SERVICES**



GOVERNMENT

Report to those  
charged with  
governance

Lancaster City Council  
16 September 2008

AUDIT

# Content

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The contacts at KPMG in connection with this report are:	
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This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Kevin Wharton who is the engagement lead to the Council, telephone 0161 246 4758 or email kevin.wharton@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4063, email trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Team, Nicholson House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SU or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

## Executive summary

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### Purpose of this report

The Audit Commission's Code of Audit Practice (the Code) requires us to summarise the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. We report to those charged with governance (in this case the Audit Committee) at the time you are considering the financial statements. We are also required to comply with an International Standard on Auditing (ISA260) which sets out our responsibilities for communicating with those charged with governance.

This report meets both of these requirements. It summarises the key issues identified during our audit of the financial statements for the year ended 31 March 2008. It has been prepared for presentation to the Audit Committee on 24 September 2008.

This report does not repeat matters we have previously communicated to you. A summary of the reports we have issued in the year is set out in Appendix 5. Once we have finalised our opinions and conclusions we will prepare our Annual Audit and Inspection Letter jointly with your Audit Commission CAA lead to close our audit.

### Our opinions and conclusions

#### *Use of Resources*

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and regularly reviewing their adequacy and effectiveness.

Our responsibility is to satisfy ourselves that you have in place proper arrangements by reviewing and, where appropriate, examining evidence that is relevant to your corporate performance and financial management arrangements and reporting on them.

Based upon this we have concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Our findings are detailed in section two of this report and our proposed conclusion is set out in Appendix 1.

#### *Accounts and Annual Statement of Governance*

The Council is responsible for putting in place systems of internal control to ensure the regularity and lawfulness of transactions, to maintain proper accounting records and to prepare financial statements that present fairly its financial position and its expenditure and income. It is also responsible for preparing and publishing an Annual Statement of Governance with its financial statements.

On receiving your management representations letter we will issue an unqualified audit opinion on 29 September 2008.

Our findings are detailed in section three and our proposed opinion on the accounts is presented in Appendix 2.

#### *Exercise of other powers*

We have a duty under section 8 of the Audit Commission Act 1998 to consider whether, in the public interest, to report on any matter that comes to our attention in order for it brought to the attention of the public. In addition we have a range of other powers under the 1988 Act. We did not exercise these powers or issue a report in the public interest in 2007/08.

#### *Certificate*

We are required to certify that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice. If there are any circumstances under which we cannot issue a certificate, then we are required to report them to you and to issue a draft opinion on the financial statements.

There are no issues that would cause us to delay the issue of our certificate of completion of the audit.

## Executive summary (continued)

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### Status of the audit

At the date of this report our audit work is substantially complete subject to completion of the following areas:

- Review of miscellaneous disclosure notes.

We now require a signed management representation letter, and have provided a draft of this in Appendix 7.

### Declaration of independence and objectivity

In relation to the audit of the financial statements of Lancaster City Council for the financial year ending 31 March 2008, we confirm that there were no relationships between KPMG LLP and the Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 6 in accordance with ISA 260.

### Fees

Our fee for the audit is £111,000. This has been contained within the totals agreed with you in our audit plan. We have not performed any non-audit work.

## Use of resources

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**We are required to satisfy ourselves that you have proper arrangements in place to secure economy, efficiency and effectiveness in your use of resources. We reach this conclusion by considering the various assessment we make during the year, including the use of resources assessment.**

**Based upon this we have concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.**

### Introduction

In our audit plan we outlined the work streams we consider to assess whether the arrangements you have in place to ensure that your resources are deployed effectively are appropriate. Our conclusion is based on these work streams, including our cumulative audit knowledge.

### UoR assessments

This assessment analyses your performance against the five themes published by the Audit Commission:

- Financial Reporting;
- Financial Management;
- Financial Standing;
- Internal Control; and
- Value for Money.

The scoring of the themes ranges from one to four, where four is performing strongly and one is inadequate performance. In 2007 the Council achieved an overall score of three indicating that it was performing well across all areas. Our work for the 2008 assessment is underway and our theme assessments will be communicated to you in November 2008. The results of the VFM assessment so far do not indicate that there are any significant issues arising that would prevent us issuing an opinion by 30 September 2008 stating that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### Other work

If we identify a need for it we are expected to perform other work as necessary to meet our responsibilities under the Code of Audit Practice. During 2007/08, we reviewed the Council's Medium Term Financial Strategy, which will be reported to Audit Committee on 24 September 2008.



# Accounts and Annual Statement of Governance

**We have now completed the audit in line with the deadline. We have identified no issues in the course of the audit that are considered to be material. On receiving your management representations letter we will issue an unqualified audit opinion on 29 September 2008.**

**We have also provided you with a review of the accounts production process and how this can be improved in the future. We will also report that the wording of your Annual Statement of Governance accords with our understanding**

## Introduction

The tasks we perform in our review of your financial statements are summarised below. They are split between those which are undertaken before, during and after production of the accounts.

Work Performed	Accounts production stage		
	Before	During	After
<b>1. Business Understanding:</b> review your operations.	✓	✓	-
<b>2. Controls:</b> assess the control framework.	✓	-	-
<b>3. Prepared by client list:</b> issue our prepared by client request.	✓	-	-
<b>4. Accounting standards:</b> agree the impact of any new accounting standards.	✓	✓	-
<b>5. Accounts Production:</b> review the accounts production process.	✓	✓	✓
<b>6. Testing:</b> test and confirm material or significant balances and disclosures.	-	✓	-
<b>7. Representations &amp; opinions :</b> seek and provide representations before issuing our opinions.	✓	✓	✓

We reported on the work carried out relating to the pre-accounts production stage to management during our interim audit. Below we focus on stages five and six:

## Accounts Production

Your accounts production process is assessed as part of our UoR assessment. As part of this process we have considered the production process against three criteria:

Element	Commentary
Completeness of draft accounts	We received the draft financial statements on 25 June 2008, in advance of the audit. The draft financial statements were substantially complete and required very few audit adjustments. These were of a presentational nature, which meant that there was no impact upon the financial position of the financial statements.
Quality of supporting working papers	Working papers, in the main, met the requirements of the 'Prepared by Client list' provided to you before the audit. The working papers were provided in line with the agreed timescales, were to a good standard and were easy to follow and required little follow up with the staff responsible for preparation.
Response to audit queries	Responses to audit queries and additional requests for information were dealt with in a prompt manner.

## Accounts and Annual Statement of Governance (continued)

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### Testing

In accordance with ISA 260 we are required to communicate any uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

We have provided a summary of both the corrected and uncorrected audit differences in Appendix 3.

### Opinions and Representations

As part of the finalisation process we are required to provide you with representations concerning our independence and ability to act as your auditors. We have provided this at Appendix 6.

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Head of Financial Services (s151 officer) on 27 August 2008. We have also included a copy of this at Appendix 7. Once we have received this we will issue our audit opinion.

### Other matters

ISA260 requires us to communicate "audit matters of governance interest that arise from the audit of the financial statements" to you which includes;

- material weaknesses in internal control identified during the audit;
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. issues relating to fraud, compliance with laws and regulations, subsequent events etc) and
- other audit matters of governance interest.

There are no others matters which we wish to draw to your attention.

## Appendix 1: Proposed use of resources conclusion

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### Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

### Auditor's Responsibilities

We are required by the Audit Commission Act 1998 to satisfy ourselves that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

In 2007 we were required by section 7 of the Local Government Act 1999 to carry out an audit of the authority's best value performance plan and issue a report:

- certifying that we had done so;
- stating whether we believed that the plan had been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and where relevant, making any recommendations under section 7 of the Local Government Act 1999.

### Proposed Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, we are satisfied that, in all significant respects, Lancaster City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008.

### Best Value Performance Plan

We issued our statutory report on the audit of the authority's best value performance plan for the financial year 2007/08 on 10 December 2007. We did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

### Certificate

We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

KPMG LLP  
Chartered Accountants  
Manchester

Xx September 2008

## Appendix 2: Proposed audit report

### Independent auditor's report to the Members of Lancaster City Council

#### Opinion on the statement of accounts

We have audited the Authority statement of accounts and related notes of Lancaster City Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority statement of accounts comprises the Explanatory Foreword, Authority Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority Balance Sheet, the Authority Statement of Total Recognised Gains and Losses, the Authority Cash Flow Statement, the Collection Fund and the related notes. The statement of accounts has been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to Lancaster City Council, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to Lancaster City Council, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Lancaster City Council, as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of the Section 151 officer and auditor

The Section 151 officers responsibilities for preparing the statement of accounts in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the statement of accounts.

Our responsibility is to audit the statement of accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Authority statement of accounts presents fairly the financial position of Lancaster City Council and its income and expenditure for the year in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007.

We review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information we are aware of from our audit of the statement of accounts. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

#### Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority statement of accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority statement of accounts and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Authority statement of accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Authority statement of accounts and related notes.

#### Opinion

In our opinion:

The Authority statement of accounts presents fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended.

KPMG LLP  
Chartered Accountants  
Manchester  
24 September 2008

## Appendix 3: Audit differences

We are required by ISA (UK and Ireland) 260 *Communication of Audit Matters to Those Charged with Governance* to communicate all uncorrected misstatements, other than those that we believe are clearly trivial, to the Audit Committee. We are also required to report all material misstatements that management has corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

This appendix sets out the audit differences identified by our audit of Lancaster City Council for the year ended 31 March 2008.

### Uncorrected audit differences

We can confirm that there are no uncorrected audit differences.

### Corrected audit differences

Detailed below are the audit differences that have been corrected. Figures in brackets represent credits and the figures without brackets represent debits.

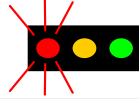
Impact (£000s)		Basis of audit difference
Income and expenditure	Balance sheet	
977 (977)	-	Different elements of the pension liability and associated costs are required to be placed under specified captions in the financial statements. The past service cost had been included within the pension interest cost, rather than within the net cost of services.
-	157 (157)	Local authorities are required to eliminate any internal debtors and creditors that are present between departments for the purposes of the financial statements. This is to prevent debtors and creditors being overstated. However, the internal debtors and creditors had been included in the accounts presented for audit.

# Appendix 4: Accounts recommendations

This appendix summarises our recommendations relating to the accounts production process. We give each recommendation a risk rating (as explained below) and agree with management what action they will take.

Priority rating for performance improvement observations raised

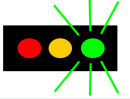
**Priority one:** issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.



**Priority two:** issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.



**Priority three:** issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.



We are pleased to report that there are no recommendations arising as a result of our final accounts audit work.

## Appendix 5: Audit reports

A summary of the reports issued in the year to date is set out below.

Report	Date issued
BVPP statutory report	December 2007
Audit Plan	January 2008
Interim report	No interim report was issued, as there were no material matters to draw to the attention of the Audit Committee.
Medium Term Financial Strategy	September 2008

## Appendix 6: Declaration of independence and objectivity

### Declaration of Independence and Objectivity 2007/08

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

“Auditors and their staff should exercise their professional judgement and act independently of both the Audit Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired”

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission’s *Annual Letter of Guidance and Standing Guidance* (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (‘Ethical Standards’).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 *Communication of Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor’s objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor’s network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor’s professional judgement, the auditor is independent and the auditor’s objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor’s objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Partner and the audit team.

### General procedures to safeguard independence and objectivity

KPMG’s reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm’s required independence. KPMG’s policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual (‘the Manual’). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.



## **Appendix 6: Declaration of independence and objectivity (continued)**

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KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

### **Auditor Declaration**

In relation to the audit of the financial statements of Lancaster City Council for the financial year ending 31 March 2008, we confirm that there were no relationships between KPMG LLP and the Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

## Appendix 7: Draft management representation letter

Dear KPMG LLP,

We understand that auditing standards require you to obtain representations from management on certain matters material to your opinion. Accordingly we confirm to the best of our knowledge and belief, having made appropriate enquiries of other members of the Council, the following representations given to you in connection with your audit of the financial statements for Lancaster City Council for the year ended 31 March 2008.

All the accounting records have been made available to you for the purpose of your audit and the full effect of all the transactions undertaken by Lancaster City Council has been properly reflected and recorded in the accounting records in accordance with agreements, including side agreements, amendments and oral agreements. All other records and related information, including minutes of all management and Board meetings, have been made available to you.

We confirm that we have disclosed all material related party transactions relevant to the Council and that we are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS 8 or other requirements.

We confirm that we are not aware of any actual or potential non-compliance with laws and regulations that would have had a material effect on the ability of the Council to conduct its business and therefore on the results and financial position to be disclosed in the financial statements for the year ended 31 March 2008.

We acknowledge that we are responsible for the fair presentation of the financial statements in accordance with the Local Government Statement of Recommended Practice ("SORP") and wider UK accounting standards. We have considered and approved the financial statements.

We confirm that we:

- understand that the term "fraud" includes misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Misstatements resulting from fraudulent financial reporting involve intentional misstatements or omissions of amount or disclosures in financial statements to deceive financial statement users. Misstatements resulting from misappropriation of assets involve the theft of an entity's assets, often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation;
- are responsible for the design and implementation of internal control to prevent and detect fraud and error;
- have disclosed to you our knowledge of fraud or suspected fraud affecting the Council involving:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
- have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others; and
- have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We confirm that the presentation and disclosure of the fair value measurements of material assets, liabilities and components of equity are in accordance with applicable reporting standards. The amounts disclosed represent our best estimate of fair value of assets and liabilities required to be disclosed by these standards. The measurement methods and significant assumptions used in determining fair value have been applied on a consistent basis, are reasonable and they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Council where relevant to the fair value measurements or disclosures.

We confirm that there are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than that already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements.

## Appendix 7: Draft management representation letter (continued)

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- With reference to the specific issues on which you have requested assurances from Members, we confirm that we are not aware of:
- Finally, no additional significant post balance sheet events have occurred that would require additional adjustment or disclosure in the financial statements, over and above those events already disclosed.

This letter was tabled at the meeting of the Audit Committee on 24 September 2008.

Yours faithfully

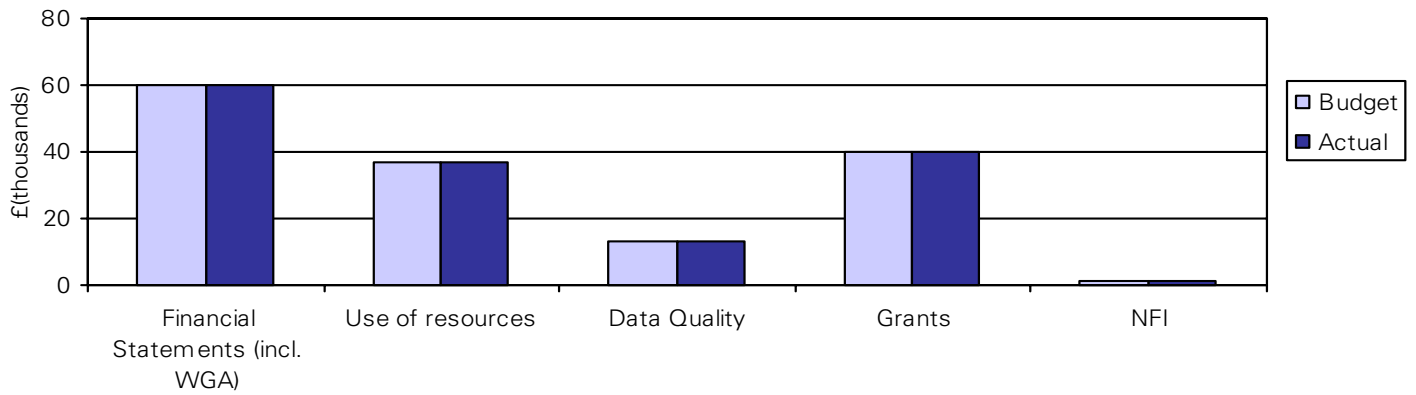
[Name of Executive Director signing letter on behalf of Council]

On behalf of the Council

## Appendix 8: Audit Fee

To make sure that there is openness between us and your Audit Committee about the extent of our fee relationship with you, we have summarised below the out-turn against the 2007/08 agreed external audit fee:

### External audit fee for 2007/08



The above analysis shows that our fee is in line with the audit plan approved by the Audit Committee in September 2007.

Our grants work is still ongoing, therefore, the above figures are based on our estimations of the cost of completing this work.