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Nadine Muschamp
Head of Financial Services & s151 Officer
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Our ref hg/016/Let-412

22 April 2010

Dear Nadine

Lancaster City Council - Annual Audit Fee Letter 2010/11

I am writing to confirm the audit work and fee that we propose for the 2010/11 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 work mandated by the Audit Commission for 2010/11; and
- reflect only the audit element of our work, and exclude any inspection and assessment fees which will be charged separately by the Audit Commission. Your Comprehensive Area Assessment Lead will be writing to you separately on these fees on behalf of the other inspectorates.

As I have not yet completed my audit for 2009/10 the audit planning process for 2010/11, 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 of any changes.

Audit fee

The proposed indicative fee for the audit for 2010/11 is £135,000 (plus VAT). This compares to the planned fee of £120,000 for 2009/10, a summary of this is shown in the table below.

Audit area	Planned fee 2010/11	Planned fee 2009/10
Audit fee – Lancaster City Council	135,000	120,000
Less: IFRS reimbursement (see above)	(8,351)	-
Total audit fee	126,649	120,000

We recognise that this is a significant fee increase. However, the current fee level at £120,000 is 7.9% below the "mid point scale fee". This low level of fee would only be sustainable if Lancaster City Council were an exceptionally high performing authority. This proposed increase reflects the fact that the "scale rate" for an authority such as Lancaster City Council should be £138,479 and the increased fee is still 2.5% below the midpoint.

In July 2009, in recognition of the financial pressures that public bodies are facing in the current economic climate, the Audit Commission confirmed that it would subsidise the 'one-off' element of the cost of transition to International Financial Reporting Standards (IFRS) for local authorities. To avoid any confusion with the annual audit fee, the Audit Commission will refund an amount based on a set proportion of the scale fee to individual bodies. The Council will therefore need to pay the total audit fee as stated above, but will be reimbursed £8,351 directly by the Audit Commission. This means the Council's net audit fee after the IFRS reimbursement is £126,649, representing an effective increase of 5.5% compared to 2009/10.

In addition when we were determining our 2010/11 fee for the Authority we took care to ensure that it also reflected our assessment of specific risks by the Authority. These risks include:

- the recent and ongoing financial pressures on the Authority due to the prevailing economic conditions and the Government's latest Comprehensive Spending Review. We will review and comment upon, as appropriate, the Authority's financial position as pressures on its resources develop;
- 2010/11 will be the first year local authorities will be required to prepare accounts in accordance with the International Financial Reporting Standards (IFRS). The transition to IFRS will increase our work, particularly in the first year when you will need to restate your previous year's accounts on the new basis, to provide prior year comparatives. A separate plan for the audit of the financial statements will be issued in December 2010. This will detail the risks identified, planned audit procedures and 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 Head of Financial Services and then prepare a report for the Audit Committee, outlining the reasons why the fee needs to change.

I have not included an estimated fee for the certification of grant claims and returns at this stage. I will write to you separately and provide an estimate of the fee when I have a better understanding of the likely scale of this work.

The Audit Commission will continue to undertake the delivery and support of the National Fraud Initiative (NFI) work. Consequently, the Audit Commission will be charging and billing the according fee scales directly to the Council. This will be in two instalments.

Use of Resources audit

Our use of resources assessments will be based upon the evidence from three themes:

- Managing finances;
- Governing the business; and
- Managing resources.

For the 2010 assessment, the timetable for the completion of Use of Resources work by auditors has been brought forward to enable auditors to complete their assessment on a phased basis with a view to completing the bulk of the work by the end of the financial year to which the assessment relates. This is to reduce the overlap with the final accounts audit and smooth the workload to reduce the burden on audited bodies and auditors during September.

The key lines of enquiry specified for the assessment are set out in the Audit Commission's work programme and scales of fees 2010/11. Our work on use of resources informs our 2010/11 value for money conclusion. At this stage I have identified one specific risk in relation to my value for money conclusion. For this risk I will consider the arrangements put in place by the Council to mitigate the risk and plan my work accordingly.

Risk	Planned work
The Authority faces financial pressures due to the prevailing economic conditions and the Government's latest Comprehensive Spending Review.	We will review and comment upon, as appropriate, the Authority's financial position as pressures on resources develop.

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

Audit team

The key members of our audit team for the 2010/11 audit are:

Name	Role	Contact details
Kevin Wharton	Engagement lead	kevin.wharton@kpmg.co.uk 0161 246 4758
Jillian Burrows	Senior Manager	jillian.burrows@kpmg.co.uk 0161 246 4705
Heather Garrett	Manager	heather.garrett@kpmg.co.uk 0161 246 4294
Karl Ballard	Assistant Manager	karl.ballard@kpmg.co.uk 0161 246 4314

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



Kevin Wharton
Engagement Lead

cc: Roger Muckle, Corporate Director (Finance and Performance)
Derek Whiteway, Internal Audit Manager

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 increased from that identified for 2009/10;
- 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 Code within your 2010/11 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 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.

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 opinion audit plan.

Changes to the plan will be agreed with you. These 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
Audit plan	December 2010
Interim audit report	May 2011
Report to those charged with governance (ISA260 report)	September 2011
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2011
Use of resources report	September 2011
Annual audit letter	December 2011