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LA

Our ref **Sc/hg/016/let599**

Contact **Stephen Clark**
0113 231 3148

13 April 2011

Dear Nadine

Annual audit fee 2011/12

I am writing to confirm the audit work and fee that we propose for the 2011/12 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 2011/12.

As we have not yet completed our audit for 2010/11 the audit planning process for 2011/12, 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.

The proposed indicative fee for the audit for 2011/12 is £128,250 (plus VAT). This compares to the planned fee of £135,000 for 2010/11.

At this stage I estimate that the fee for the certification of 2011/12 grants and returns will be £40,000. As the amount of work will depend on a number of factors that cannot be predicted with certainty at this early stage, including the number and nature of the schemes which will require certification, I will provide an update to this estimate at a later date. I will write to you separately when I have a better understanding of the likely scale of this work.

The indicative fee is based on a number of assumptions, which I have summarised in Appendix 1 to this letter. The Audit Commission has published its work programme and scales of fees 2011/12 and the scale fee for Lancaster City Council is £128,250. The fee proposed for 2011/12 is in line with the scale fee. Fees have reduced compared to 2010/11 because some of the additional audit costs associated with the introduction of International Financial Reporting Standards last year are not present in 2011/12.

In setting the fee at this level, I have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified to 2010/11. A separate plan for the audit of the 2011/12 financial statements will be issued later this year. This

will detail the risks identified, planned audit procedures and (if required) 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 you and then prepare a report for the Audit Committee, outlining the reasons why the fee needs to change.

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.

The key members of our audit team for the 2011/12 audit are:

Name	Role	Contact details
Stephen Clark	Director	stephen.clark@kpmg.co.uk 0113 231 3148
Heather Garrett	Manager	heather.garrett@kpmg.co.uk 0161 246 4294
Karl Ballard	Assistant Manager	karl.ballard@kpmg.co.uk 0161 246 4134

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



Stephen Clark
Director

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 different from that identified for 2010/11;
- 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 IFRS-based Code of Practice on local Authority Accounting within your 2011/12 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 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; 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.

Improvements to the above factors may allow reductions to the audit fee in future years. 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 financial statements 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 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
Financial Statements audit plan	January 2012
Report to those charged with governance (ISA260 report)	September 2012
Auditor's report giving the opinion on the financial statements, value for money conclusion and audit certificate	September 2012
Opinion on Whole of Government Accounts return	September 2012
Annual audit letter	November 2012
Certification of grant claims and returns	February 2013