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Our ref **RL/016**

Contact **Richard Lee**
0161 246 4661

9 April 2015

Dear Nadine

Annual audit fee 2015/16

I am writing to confirm the audit work and fee that we propose for the 2015/16 financial year at Lancaster City Council.

Closure of the Audit Commission

Although the Audit Commission formally closed at the end of March 2015, it was responsible for setting audit fees for the audit of the 2015/16 financial year. Our fee proposals are therefore based on the Audit Commission's *Work Programme & Scales of Fees 2015/16*.

Following the closure of the Audit Commission, responsibility for determining audit fees in the future has transferred to Public Sector Audit Appointments Limited (PSAA), an independent company established by the Local Government Association. PSAA will oversee the management of the Audit Commission's audit contracts until they end in 2017, or 2020 if they are extended. The Secretary of State for Communities and Local Government has delegated certain functions formerly exercised by the Audit Commission to PSAA to enable it to deliver these functions.

Also following the Audit Commission's closure, the National Audit Office (NAO) is now responsible for producing and maintaining the Code of Audit Practice (the Code) and providing supporting guidance to auditors. We will follow the requirements of the Code and supporting guidance when delivering our audit work.

Planned audit fee

The planned audit and certification fees for 2015/16 are shown below, along with a comparison to the prior year's fee. All fees are exclusive of VAT.

Audit area	Planned fee 2015/16	Planned fee 2014/15
Code of Audit Practice audit fee	£58,388	£76,950*
Certification of grant claims & returns	£9,573	£10,320

*excludes recurring NNDR fee adjustment of £900 agreed during 2014/15 following changes to national certification arrangements.

In general, the Audit Commission set 2015/16 scale fees based on a reduction of 25 per cent to the fees applicable for 2014/15. This reduction is in addition to the savings of up to 40 per cent in scale audit fees and certification fees in 2012. The planned fee is in line with the scale fee.

As we have not yet completed our audit for 2014/15 the audit planning process for 2015/16, 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.

Factors affecting audit work for 2015/16

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 changes affecting our audit responsibilities or financial reporting standards.

The Chartered Institute for Public Finance and Accountancy (CIPFA) has confirmed that a change in accounting policy will be introduced for the accounts from 2016/17, in relation to the measurement of transport infrastructure assets for authorities with highways responsibilities. Fees for any additional audit work required in 2015/16, the preparatory year, in relation to disclosures in the financial statements, will be subject to approval under the normal fee variations process. The Audit Commission decided that it was not appropriate to increase scale fees because the amount of work required at individual authorities will vary based on local circumstances, and may not be required for more than one year.

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. The 2015/16 fees have been set on the basis that the NAO's Code maintains the scope of work required by auditors under the Audit Commission's previous Code and supporting guidance. The NAO has not yet published guidance for auditors on the required approach to work on value for money arrangements for 2015/16.

Certification work

As well as our work under the Code, we will certify the 2015/16 claim for housing benefit subsidy to the Department for Work & Pensions.

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 in early 2016. 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, 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.

We expect to issue a number of reports relating to our work over the course of the audit. These are listed at Appendix 2.

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.

Our team

The key members of our audit team for the 2015/16 audit are:

Name	Role	Contact details
Tim Cutler	Partner	tim.cutler@kpmg.co.uk 0161 246 4774
Richard Lee	Senior Manager	richard.lee@kpmg.co.uk 0161 246 4661
Sukhsimran Singh	Assistant Manager	sukhsimran.singh@kpmg.co.uk 0161 246 4668

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, Trevor Rees (on 0161 246 4063, or by email to trevor.rees@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 3H

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 2014/15;
- you will inform us of significant developments impacting on our audit work;
- internal audit meets the appropriate professional standards;
- you will identify and implement any changes required under the CIPFA IFRS-based Code of Practice on local Authority Accounting within your 2015/16 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;
- 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.

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 and charge an increased audit fee. The fee for the audit of the financial statements 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 2016
Interim audit report	March 2016
Report to those charged with governance (ISA260 report)	September 2016
Auditor's report giving the opinion on the financial statements, value for money conclusion and audit certificate	September 2016
Opinion on Whole of Government Accounts return	September 2016
Annual audit letter	November 2016
Certification of grant claims and returns	December 2016
External audit plan	January 2016
Interim audit report	March 2016
Report to those charged with governance (ISA260 report)	September 2016