

# *Leicestershire County Council*

*Report to those charged with governance*

Report to the Corporate Governance Committee of the authority on  
the audit for the year ended 31 March 2015 *(ISA (UK&I)) 260*

Government and  
Public Sector

September 2015

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# Contents

## **Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies**

*In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.*

<b>Executive summary</b>	<b>2</b>
<b>Audit approach</b>	<b>3</b>
<b>Significant audit and accounting matters</b>	<b>7</b>
<b>Internal controls</b>	<b>17</b>
<b>Risk of fraud</b>	<b>18</b>
<b>Fees update</b>	<b>20</b>
<b>Appendix 1: Summary of uncorrected misstatements</b>	<b>22</b>
<b>Appendix 2: Letter of representation</b>	<b>23</b>

*An audit of the Statement of Accounts is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate.*

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# **Executive summary**

## **Background**

This report tells you about the significant findings from our audit. We presented our plan to you in February 2015; we have reviewed the plan and concluded that it remains appropriate. We have updated our risk assessment and present any changes in the audit approach section of this report.

## **Audit Summary**

- We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the Statement of Accounts.
- We will update you on progress at the Committee, but the key outstanding matters at the time of writing were:
  - review of the final adjustments within the Statement of Accounts;
  - receipt of an outstanding investment confirmation;
  - approval of the Statement of Accounts and letter of representation; and
  - completion procedures including subsequent events review.
- Your draft accounts (including the pension fund) were submitted to us by the June deadline and were of a high quality. Supporting working papers were good and provided on time in the majority of cases. Your use of our 'Connect' electronic working papers system helped the audit process run smoothly.
- Finance staff are always responsive and helpful. They are committed to the audit process and are always looking to improve.
- We did not identify any material audit and accounting issues during our work.

Please note that this report will be sent to the Audit Commission in accordance with the requirements of its standing guidance.

We look forward to discussing our report with you on 25 September 2015. Attending the meeting from PwC will be Richard Bacon and Matthew Elmer.

Our Audit Approach is risk-based.

We utilise a range of technology to support what we do, including data auditing, bespoke delivery centres and our cutting edge auditing software 'Aura'.

# Audit approach

Our audit approach was set in our audit plan which we presented to you in February 2015.

We have summarised below the significant risks we identified in our audit plan, the audit approach we took to address each risk and the outcome of our work.

Risk	Categorisation	Audit approach
<p><b>Fraud and Management Override of Controls</b> ▶</p> <p>ISA (UK&amp;I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk that management may override controls in order to manipulate the financial statements.</p>	<p>Significant Risk</p>	<p>We focussed our work on the testing of journals and utilised data auditing audit techniques to do this. We also:</p> <ul style="list-style-type: none"> <li>• reviewed accounting estimates for biases and evaluate whether circumstances producing any bias, represent a risk of material misstatement due to fraud;</li> <li>• evaluated the business rationale underlying significant transactions; and</li> <li>• performed 'unpredictable' procedures – these are tests we have not carried out before to test the robustness of controls.</li> </ul> <p>No significant issues were identified as part of this work.</p>
<p><b>Recognition of income and expenditure</b> ▶</p> <p>Under ISA (UK&amp;I) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition.</p> <p>There is a risk that the Council could adopt accounting policies or treat income and expenditure transactions in such a way as to lead to material misstatement in the reported revenue and expenditure position.</p>	<p>Significant Risk</p>	<p>We updated our understanding of your revenue and expenditure controls, and evaluated your accounting policy for income and expenditure recognition. This is consistent with the requirements of the code of accounting for Local Government.</p> <p>We also performed detailed testing of revenue and expenditure transactions in your Statement of Accounts. This included reviewing your bank statements to test associated income transactions, and testing in detail your expenditure accruals. No significant issues were identified as part of this work.</p>

*The Valuation of Properties was an area of audit focus. This was due to the size of the Property, Plant and Equipment on your balance sheet.*

### **Valuation of properties**

Property, Plant and Equipment is the largest figure on your balance sheet. The economic conditions continue to be uncertain, which has a potential impact upon the valuation of your property, plant and equipment.

#### *Specific areas of audit risk include:*

- The accuracy and completeness of detailed information on assets.
- Whether the assumptions underlying the classification of properties are appropriate.
- The valuer's methodology, assumptions and underlying data, and our access to these.

### **Significant Risk**

This category has been updated from an 'other' risk in our audit plan, reflecting the size of your land and buildings and degree of judgement involved.

For assets which were valued during the year, we:

- agreed the source data used by your Valuer to supporting records;
- assessed the work of your Valuer through use of our own internal specialists; and
- agreed the outputs to your Fixed Asset Register and accounts.

Where assets were not re-valued in year, we reviewed your impairment assessment, and evaluated whether your assets are held at an appropriate value in your accounts at the year-end.

More details on the results of our audit procedures are included later in this report.

### Medium Term Financial Strategy

The Authority has made significant efforts over the past few years to identify savings and deliver more efficient services. The MTFS approved in February 2015 was based upon a reduction in formula grant over the four year period 2015/16 to 2018/19. It included savings of £86.3m. Growth of £28.5m has been included for service improvement, cost and demand pressures.

Recent announcements on likely future funding and the protection from reductions of other public services over the medium term mean that the total savings requirement is likely to continue being significant.

### Significant (VfM work)

In forming our conclusion economy, efficiency and effectiveness, we have reviewed your Medium Term Financial Strategy. We have updated our understanding of how you develop the strategy and compared the assumptions you used to comparative benchmarks and best practice.

In particular, we have reviewed:

- the governance structure in place to deliver your plans;
- how you have managed your savings programme;
- the key assumptions included in the MTFS, comparing them with best practice and those used by other Local Authorities;
- the sensitivity of key assumptions to change;
- the impact of potential changes to key assumptions and the rigour behind the MTFS;
- the prioritisation of resources as part of the MTFS;
- your arrangements to review the value for money which your services provide; and
- the adequacy of your planned level of reserves and contingencies against your stated policy and the level of future risk in delivering the MTFS.

The detailed findings from our work were presented separately to the Corporate Governance Committee at its meeting in June 2015.

A summary of the work to support our value for money opinion is also included later in this report.

### *Intelligent scoping*

In our audit plan presented to you in February 2015 we reported our planned overall materiality which we used in planning the overall audit strategy. Our materiality increased from £17,232,000 to £17,840,000 to reflect the values in the draft 2014/15 Statement of Accounts. The clearly trivial reporting de minimis level has remained the same.

Our revised materiality levels are as follows:

	£
Overall materiality	17,840,000
Clearly trivial reporting de minimis	100,000

Overall materiality has been set at 2% of gross expenditure for the year ended 31 March 2015, as per the draft Statement of Accounts we received for audit in June.

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are “clearly trivial” i.e. those which we do expect not to have a material effect on the financial statements even if accumulated. We agreed the de minimis threshold with the Corporate Governance Committee at its meeting in February 2015.

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# *Significant audit and accounting matters*

Auditing Standards require us to tell you about relevant matters relating to the audit of the Statement of Accounts sufficiently promptly to enable you to take appropriate action.

## *Accounts*

We have completed our audit, subject to the following outstanding matters:

- review of the final adjustments within the Statement of Accounts;
- receipt of an outstanding investment confirmations;
- approval of the Statement of Accounts and letter of representation; and
- completion procedures including subsequent events review.

Subject to the satisfactory resolution of these matters, the finalisation of the Statement of Accounts and their approval of them we expect to issue an unqualified audit opinion.

As part of our work on the Statement of Accounts we also need to examine the Whole of Government Accounts schedules submitted to the Department for Communities and Local Government. We anticipate issuing an opinion stating in our view they are consistent with the Statement of Accounts, subject to final review and completion of this work.

## *Accounts Preparation*

You completed your draft accounts by the end of June, and provided them to us in advance of the audit as agreed. The hard work you have put into your accounts process over the past few years gives you a strong base to work from. Our audit identified no material issues in the quality of the accounts presented for audit. Some minor disclosure issues were identified which have been discussed and have been amended appropriately.

We agreed in advance what we would need for our audit and this was mostly ready for us when we arrived. The working papers were provided to us electronically and your use of our 'Connect' electronic working papers system helped us perform our audit. The finance team worked hard to meet the timescales and were helpful in resolving our queries.

We would like to thank the team (and others) for their support and assistance during the audit.



## *Accounting issues*

We identified the following key matters during our audit.

### *Valuation of Property, Plant and Equipment*

Your draft accounts include property, plant and equipment with a net book value of £794.3 million, largely made up of land and buildings (£448.5 million) and infrastructure assets (£317.8 million). The total value of your land and buildings has decreased slightly from £465.2 million in the prior year. This is primarily due to the revaluation of your estate offset by the conversion of a number of schools to Academy status.

You have to keep the values of your own land and buildings up to date. The Council's accounting policy is to include land and buildings in the balance sheet at open market value for existing use or at depreciated replacement cost for specialised assets where there is no market. You review the top 20 assets every year, revaluing a fifth of your other assets every year and on completion of a capital scheme above £100,000. The work is completed internally to the Council.

We have engaged an internal PwC valuation specialist to review the work of your internal valuation team. We considered the applicable professional requirements and industry standard indices used to revalue specialised assets, and the steps taken by the Council to account for the full impact of these indices across all of its specialised assets. We also challenged the assumptions you have made in valuing your assets.

No issues have been identified to report to the Committee.

## *East Midlands Shared Services*

The East Midlands Shared Service (EMSS) went live in September 2012. As part of our planning for the audit we asked for the Internal Auditors of EMSS to review the core financial processes – accounts receivable, accounts payable and payroll.

We reviewed their work and placed reliance on this as appropriate. We undertook some 'top-up' testing ourselves to check that the controls in place were operating across the whole financial year. The Council should consider how they receive assurance that the controls are operating effectively across the whole of the financial year in future periods.

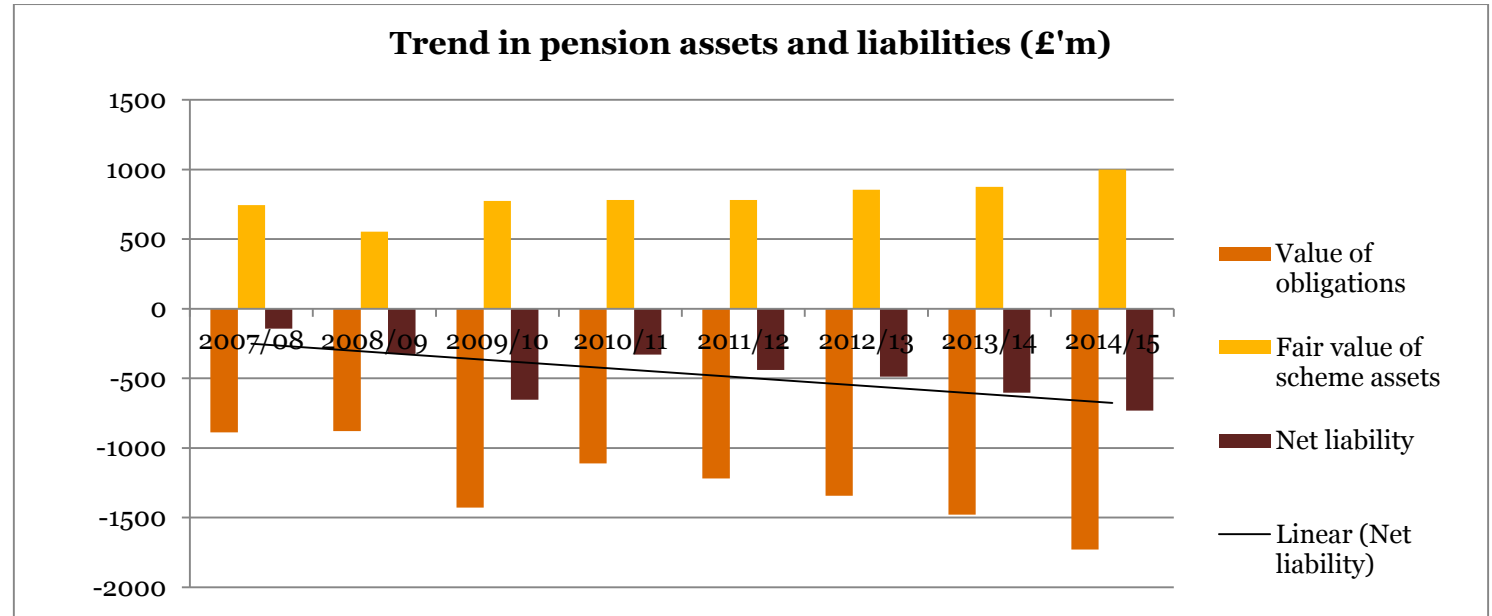
### *Pensions liability*

The most significant estimate in the Statement of Accounts is in the valuation of net pension liabilities for employees in the Leicestershire pension fund. Your net pension liability at 31 March 2015 was £731 million (2014 - £603.3 million).

The increase in your pension fund deficit reflects an increase in the net deficit for Local Government Pension Funds as a whole over the last few years. The 2013 triennial valuation increased the total deficit from £36 billion in 2010 to £46 billion, an increase of over 25%.

Although the trend for your scheme has been for assets to gradually increase in value over this period, the value of the liabilities has nearly doubled over the past 7 years.

The chart below shows the significant movement in your net pension liability over the last few years, and illustrates the persistent and growing net liability in the pension fund since at least 2007.



We also reviewed the reasonableness of the assumptions underlying the pension liability, and we are comfortable that the assumptions are within an acceptable range. The key assumptions used are as follows:

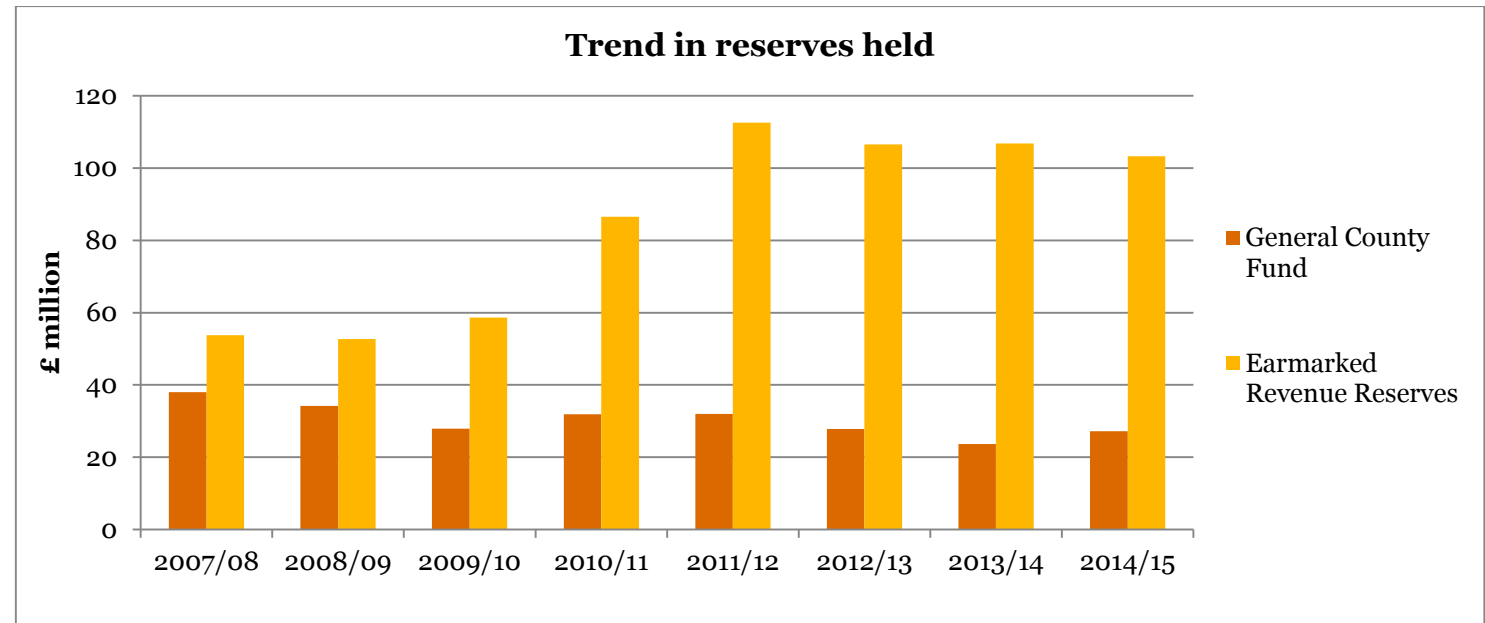
Description	Assumption used
Mortality assumptions at age 65	22.2 – 26.6 years
Inflation	2.4%
Rate of salary increase	4.3%
Rate of pension increase	2.4%
Discount rate	3.2%

We utilised the work of PwC actuarial experts to assess the assumptions applied by the Council. We also validated the data supplied to the actuary on which to base their calculations. We concluded that the assumptions used were reasonable.

We utilised the work of the PwC Pensions Team over the Leicestershire Pension Fund to gain assurance over the valuation of your pension fund assets. The work undertaken included obtaining confirmation letters directly from the managers of relevant investment funds.

## Reserves

Your level of reserves continues to be strong. We have commented in more detail on this in our report on your Medium Term Financial Strategy which is presented to you earlier in the year. Your draft Statement of Accounts show that this trend has continued:



Of the reserves held at the end of 2014/15, £7.6 million of the General County Fund relates to delegated funding for schools. Significant earmarked reserves include £17.2 million for insurance purposes (£14.9 million in 2013/14 and £11.4 million in 2012/13) and £18.8 million in a transformation fund (£15.5 million in 2013/14).

You hold a number of earmarked reserves to address emerging future costs. During 2014/15 you undertook a detailed review of your reserves requirements. Our review of these reserves identified no auditing or accounting issues; we are satisfied that they have been established in accordance with your accounting policies. The use of these reserves will continue to be considered in more detail as part of your financial planning procedures going forward.

From an audit perspective, we are satisfied that reserves have been accounted for correctly. We would comment that, with further reductions in Local Government funding likely and a number of policy reforms requiring implementation, you continue to face higher levels of risk in the short and medium term. You should continue to take this in account in your assessment of reserves requirements.

### *Misstatements and significant audit adjustments*

We have to tell you about all uncorrected misstatements we found during the audit, other than those which are trivial. See Appendix 1.

There are no misstatements which have been corrected by management but which we consider you should be aware of in fulfilling your governance responsibilities.

### *Significant accounting principles and policies*

Significant accounting principles and policies are disclosed in the notes to the Statement of Accounts. We will ask management to represent to us that the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Statement of Accounts have been considered.

### *Judgments and accounting estimates*

The Authority is required to prepare its financial statements in accordance with the CIPFA Code. Nevertheless, there are still many areas where management need to apply judgement to the recognition and measurement of items in the financial statements. The following significant judgements and accounting estimates were used in the preparation of the financial statements:

- i. **Property, Plant and Equipment - Depreciation and Valuation** - You charge depreciation based on an estimate of the Useful Economic Lives for the majority of your Property, Plant and Equipment (PPE). This involves a degree of estimation. You also value your PPE in accordance with your accounting policies to ensure that the carrying value is true and fair. This involves some judgement and reliance on your internal valuers.

- ii. **Bad Debt Provision** – Your Bad Debt Provision for sundry debtors is calculated on the basis of age and an assessment of the potential recoverability of invoices. There is an inherent level of judgement involved in calculating these provisions and you rely on the knowledge of the Departments for information on specific transactions.
- iii. **Accruals** - You raise accruals for expenditure where an invoice has not been raised or received at the year end, but you know there is a liability to be met which relates to the current year. This involves a degree of estimation.
- iv. **Provisions:** Provisions at 31 March 2015 total £9 million (£9.7 million as at 31 March 2014). Because provisions are liabilities of an uncertain timing or amount, there is an inherent level of judgement to be applied.
- v. **Pensions:** See our comments above. You rely on the work of an actuary in calculating these balances.
- vi. **Provision for accumulated absences** - You calculate your accrual for untaken holiday and employment benefits at the year-end based on a sample of returns completed by managers. You apply an average calculation based on these returns when you have had no response. Your 31<sup>st</sup> March 2015 balance is £5.2 million.

Overall we found your significant judgements and accounting estimates to be reasonable.

### *Management representations*

The final draft of the representation letter that we ask management to sign is attached in Appendix 2.

## *Related parties*

In forming an opinion on the financial statements, we are required to evaluate:

- whether identified related party relationships and transactions have been appropriately accounted for and disclosed; and
- whether the effects of the related party relationships and transactions cause the financial statements to be misleading.

We also considered the completeness of the information provided to us by considering our knowledge of the Council, undertaking internet searches and information from Companies House.

We did not identify any matters during the course of our work to report.

## *Audit independence*

We are required to follow both the International Standard on Auditing (UK and Ireland) 260 (Revised) “Communication with those charged with governance”, UK Ethical Standard 1 (Revised) “Integrity, objectivity and independence” and UK Ethical Standard 5 (Revised) “Non-audit services provided to audited entities” issued by the UK Auditing Practices Board.

Together these require that we tell you at least annually about all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers’ firms and associated entities (“PwC”) and the Authority that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

### *Relationships between PwC and the Authority*

We are not aware of the following relationships that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity and which represent

matters that have occurred during the financial year on which we are to report or up to the date of this document.

### *Relationships and Investments*

We have not identified any potential issues in respect of personal relationships with the Authority or investments in the Authority held by individuals.

### *Employment of PricewaterhouseCoopers staff by the Authority*

We are not aware of any former PwC partners or staff being employed, or holding discussions in respect of employment, by the Authority as a director or in a senior management position covering financial, accounting or control related areas.

### *Business relationships*

We have not identified any business relationships between PwC and the Authority.

### *Services provided to the Authority*

The audit of the Statement of Accounts is undertaken in accordance with the UK Firm’s internal policies. The audit is also subject to other internal PwC quality control procedures such as peer reviews by other offices.

In addition to the audit of the Statement of Accounts, PwC has also undertaken other work for the Authority:

- VAT claim (£4,000) – you have requested an extension of administrative assistance with a VAT claim you are progressing, which we first delivered in 2013/14. The fee for the first stage of the work was £12,000.
- East Midlands Councils (estimated final fee of £12,000) – we undertook an audit of the East Midlands Councils 2013/14 accounts.

- Teacher's Pension Return (£13,000) – we undertook a review of this return, relating to 2013/14, in November 2014.
- VAT Helpline (£3,000) – a helpline service covering the 2015/16 financial year.

We identified the following potential threats to our independence, and put in place safeguards against these:

*Self-review threat:* This threat could arise if we undertake work which we later rely upon for our audit. Our non-audit work does not result in a material impact on the financial statements.

*Self-interest threat:* This threat could arise if we undertake significant levels of non-audit work. The size of the non-audit fees and the nature of the work does not give rise to a self-interest threat.

*Management threat:* This threat arises if PwC makes a management decision or assumes a management responsibility. The Council designated an appropriate officer to receive the results of our work and make all significant judgements connected with the services. The individuals nominated have a sufficient level of understanding of our services and has the responsibility for evaluating our work and determining what actions to take. We do not take management decisions.

*Advocacy threat:* Our non-audit services do not involve an advocacy role.

*Familiarity threat:* All of our members of staff are independent of Leicestershire County Council.

*Intimidation threat:* No intimidation threat has been identified.

We are satisfied in all cases that the non-audit work does not compromise our independence as your external auditor

### *Fees*

The analysis of our audit fees for the year ended 31 March 2015 is included later in this report. In relation to the non-audit services provided, none included contingent fee arrangements.

### *Services to Directors and Senior Management*

PwC does not provide any services e.g. personal tax services, directly to directors or senior management.

### *Rotation*

It was the Audit Commission's policy that engagement leaders at an audited body at which a full Code audit is required to be carried out should act for an initial period of five years. The Commission's view was that generally the range of regulatory safeguards it applies within its audit regime is sufficient to reduce any threats to independence that may otherwise arise at the end of this period to an acceptable level. Therefore, to safeguard audit quality, and in accordance with APB Ethical Standard 3, it will subsequently approve engagement leaders for an additional period of up to no more than two years, provided that there are no considerations that compromise, or could be perceived to compromise, the auditor's independence or objectivity.

The 2014/15 financial year is Richard Bacon's 6<sup>th</sup> year as your Engagement Leader. In March 2014, we requested an extension to his appointment to cover the 2014/15 financial year, the last for which PwC will be your auditors. This request was approved in April 2014.

### *Gifts and hospitality*

We have not identified any significant gifts or hospitality provided to, or received from, a member of the Authority's Cabinet, senior management or staff.

### *Conclusion*

We hereby confirm that in our professional judgement, as at the date of this document:

- we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and
- our objectivity is not compromised.

We would ask the Corporate Governance Committee to consider the matters in this document and to confirm that they agree with our conclusion on our independence and objectivity.

### *Annual Governance Statement*

Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: “Delivering Good Governance in Local Government”. The AGS was included in the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE “Delivering Good Governance in Local Government” framework and whether it is misleading or inconsistent with other information known to us from our audit work.

We found no areas of concern to report in this context.

### *Economy, efficiency and effectiveness*

Our value for money code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

The Audit Commission guidance includes two criteria:

- The organisation has proper arrangements in place for securing financial resilience; and

- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We determine a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

### *Medium Term Financial Strategy*

Our audit plan highlighted specific value for money risk in relation to your savings requirement and financial plans over the next few years. We agreed in the audit plan that we would review your Medium Term Financial Strategy (MTFS), comparing it to others, and also review your management arrangements.

We have already reported to members on the results of this work in a separate communication. However a summary of the key points are reported here for you information:

- You have demonstrated in the past that you have robust programme management arrangements in place and that you achieve the savings targets which you have set yourself. However, the scale of the challenge, particularly during 2015/16, is more significant than what you have faced to date. This is something you recognise through the establishment of the Transformation Programme and the additional resources you have put in place;
- You have applied a number of prudent assumptions in setting your MTFS. In some cases these were more prudent than in our benchmark average. However, we believe these are realistic assumptions which will help you to meet manage the financial risks which exist over the plan period;
- The Public Sector Audit Appointments (PSAA) value for money profile, whilst backwards looking, continues to show a number of key areas where the



Authority is providing services which can demonstrate value for money when compared with other County Councils;

- You have set aside a prudent level of earmarked reserves and contingency to manage future cost pressures. Whilst these are larger than in other similar Local Authorities, we believe that you have taken a prudent approach in setting your MTFS. These reserves will be required to effectively deliver the transformation you require;
- Up to 700 posts may be lost as a result of the changes needed over the next 4 years. You need to ensure that corporate memory is retained during this process, and that gaps in controls do not arise as a result;
- The Better Care Fund is an important aspects of your Medium Term Financial Strategy going forward. The local Better Care Fund submission has met the relevant planning deadlines and governance arrangements have been put in place.

Given the scale of the changes you are making, there are inevitably a range of risks which are largely unchanged since we last reported:

- **Slippage:** you may not be able to identify or achieve the savings you want either from a service reduction or through efficiencies.
- **Timing:** The timing of savings, service reductions and funding announcements will impact how you deliver against your MTFS.
- **Assumptions:** We have gone some way above to assess the assumptions you have applied in your MTFS. If these assumptions turn out to be false, this would have a significant impact on your ability to deliver a balanced budget over 4 years.

- **Policy:** Current and future changes in government policy have the potential to fundamentally alter the framework within which the MTFS has been developed. Examples may include further integration of Health and Social Care, the impact of the Care Bill and future Comprehensive Spending Reviews.

We have reviewed your MTFS and the assumptions which lie behind it. We have compared you with other, similar Local Authorities and taken into account our wider understanding of the Local Government sector. Funding announcements have shown that there is likely to be a continuing reduction in the amount you have to spend in the medium term. This will make it increasingly challenging to identify and deliver savings which do not result in service reductions.

In conclusion, our work in this particular area has not identified any issues which would lead to a qualified value for money conclusion.

### *Reports in the public interest*

In auditing the accounts of a Local Authority, the auditors must consider:

- Whether, in the public interest, they should make a report on any matter coming to their notice in the course of the audit, in order for it to be considered by the body concerned or brought to the attention of the public; and
- Whether the public interest requires any such matter to be made the subject of an immediate report rather than of a report to be made at the conclusion of the audit.

No public interest report has been issued.



### *Other reporting requirements*

In auditing the accounts of a Local Authority, the auditors must consider:

- Whether we need to make written recommendations for the consideration of the Council under s11(3) of the 1998 Act;
- Whether we need to report on any questions or objections made to us as auditors;
- Whether we believe that the Council or one of its officers:
  - is about to make or has made a decision which involves or would involve the authority incurring expenditure which is unlawful,
  - is about to take or has begun to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
  - is about to enter an item of account, the entry of which is unlawful and we need to issue an advisory notice under s19A of the 1998 Act;
- Whether there is any item of account for which we need to make an application to the court under s17 of the 1998 Act for a declaration that the item is contrary to law; and
- Whether we need to apply under s24 of the 1998 Act for judicial review of any decision or failure to act by the Council which it is reasonable to believe would have an effect on the accounts.

None of these actions has been necessary.

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# *Internal controls*

## *Accounting systems and systems of internal control*

Management are responsible for developing and implementing systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the Statement of Accounts and our review of the annual governance statement.

We report internal control issues separately to management and action plans have been agreed with officers.

## *Reporting requirements*

We have to report to you any deficiencies in internal control that we found during the audit which we believe should be brought to your attention. No such deficiencies were identified.

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# Risk of fraud

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

## Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

## Management's responsibility

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

## Responsibility of the Corporate Governance Committee

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.

## Your views on fraud

In our audit plan presented to the Corporate Governance Committee in February 2015 we enquired:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistle-blower lines) are in place in the entity?
- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

In presenting this report to you we ask for your confirmation that there have been no changes to your view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation.

Management or other employees have an incentive or are under pressure

*Incentive pressure*



Why commit fraud?

*Rationalisation / attitude*

Culture or environment enables management to rationalise committing fraud – attribute or values of those involved, or pressure that enables them rationalise committing a dishonest act



*Opportunity*

Circumstances exist that provide opportunity – ineffective or absent control, or management ability to override controls



# Fees update

## Fees update for 2014/15

We reported our fee proposals in our plan.

Our actual fees are in line with our proposals.

Audit fee	Actual fee 2013/14 £	Forecast fee 2014/15 £
<b>Audit work performed under the Code of Audit Practice</b>	102,600	102,600
- Statement of Accounts		
- Conclusion on the ability of the organisation to secure proper arrangements for the economy, efficiency and effectiveness in its use of resources		
- Whole of Government Accounts		
<b>Certification of Claims and Returns</b>	2,789	0
<b>Total Audit Code work</b>	<b>105,389</b>	<b>102,600</b>

Our work performed outside of the requirements of the Code of Audit Practice is summarised in the independence section earlier in this report.

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# *Appendices*

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## ***Appendix 1: Summary of uncorrected misstatements***

We identified no misstatements during the audit (above the de minimis reporting threshold) that have not been adjusted by management.

There are also no adjusted misstatement which we are required to bring to your attention.

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## ***Appendix 2: Letter of representation***

PricewaterhouseCoopers LLP  
Cornwall Court  
19 Cornwall Street  
Birmingham  
B3 2DT

Dear Richard,

### **Representation letter – audit of Leicestershire County Council’s (the Authority’s) Statement of Accounts for the year ended 31 March 2015**

Your audit is conducted for the purpose of expressing an opinion as to whether the Statement of Accounts of the Authority give a true and fair view of the affairs of the Authority as at 31 March 2015 and of its deficit and cash flows for the year then ended and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 supported by the Service Reporting Code of Practice 2014/15.

I acknowledge my responsibilities as Chief Financial Officer for preparing the Statement of Accounts as set out in the Statement of Responsibilities for the Statement of Accounts. I also acknowledge my responsibility for the administration of the financial affairs of the authority and that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of the Authority with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief, and having made the appropriate enquiries, the following representations:

#### ***Statement of Accounts***

I have fulfilled my responsibilities for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 supported by the Service Reporting Code of Practice 2014/15; in particular the Statement of Accounts give a true and fair view in accordance therewith.

All transactions have been recorded in the accounting records and are reflected in the Statement of Accounts.



Significant assumptions used by the Authority in making accounting estimates, including those surrounding measurement at fair value, are reasonable.

All events subsequent to the date of the Statement of Accounts for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 requires adjustment or disclosure have been adjusted or disclosed.

### ***Information Provided***

I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you, the authority's auditors, are aware of that information.

I have provided you with:

- access to all information of which I am aware that is relevant to the preparation of the Statement of Accounts such as records, documentation and other matters, including minutes of the Authority and its committees, and relevant management meetings;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.

So far as I am aware, there is no relevant audit information of which you are unaware.

### ***Accounting policies***

I confirm that I have reviewed the Authority's accounting policies and estimation techniques and, having regard to the possible alternative policies and techniques, the accounting policies and estimation techniques selected for use in the preparation of Statement of Accounts are appropriate to give a true and fair view for the authority's particular circumstances.

### ***Fraud and non-compliance with laws and regulations***

I acknowledge responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

I have disclosed to you:

- the results of our assessment of the risk that the Statement of Accounts may be materially misstated as a result of fraud.
- all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the Statement of Accounts.

- all information in relation to allegations of fraud, or suspected fraud, affecting the Authority's Statement of Accounts communicated by employees, former employees, analysts, regulators or others.
- all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the Statement of Accounts.

I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the Authority conducts its business and which are central to the authority's ability to conduct its business or that could have a material effect on the Statement of Accounts.

I am not aware of any irregularities, or allegations of irregularities including fraud, involving members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the Statement of Accounts.

The Authority pension fund has not made any reports to the Pensions Regulator nor am I aware of any such reports having been made by any of our advisors. I confirm that I am not aware of any late contributions or breaches of the schedule of contributions that have arisen which I considered were not required to be reported to the Pensions Regulator. I also confirm that I am not aware of any other matters which have arisen that would require a report to the Pensions Regulator.

There have been no other communications with the Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

### ***Related party transactions***

I confirm that the attached appendix to this letter is a complete list of the Authority's related parties. All transfer of resources, services or obligations between the Authority and these parties have been disclosed to you, regardless of whether a price is charged. We are unaware of any other related parties, or transactions between disclosed related parties.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

We confirm that we have identified to you all senior officers, as defined by the Accounts and Audit Regulations 2011, and included their remuneration in the disclosures of senior officer remuneration.

### ***Employee Benefits***

I confirm that we have made you aware of all employee benefit schemes in which employees of the authority participate.

### ***Contractual arrangements/agreements***

All contractual arrangements (including side-letters to agreements) entered into by the Authority have been properly reflected in the accounting records or, where material (or potentially material) to the statement of accounts, have been disclosed to you.

The Authority has complied with all aspects of contractual agreements that could have a material effect on the Statement of Accounts in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the Statement of Accounts in the event of non-compliance.

I have disclosed all material agreements that have been undertaken by the Authority in carrying on its business.

### ***Litigation and claims***

I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the statement of accounts and such matters have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

### ***Taxation***

I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any direct tax or any indirect taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and I have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing.

In particular:

- In connection with any tax accounting requirements, I am satisfied that our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities.
- I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken for the authority's benefit or any other party's benefit.
- I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the authority or any associated company for whose taxation liabilities the authority may be responsible.

### ***Pension fund assets and liabilities***

All known assets and liabilities including contingent liabilities, as at the 31 March 2015, have been taken into account or referred to in the Statement of Accounts.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the 31 March 2015 have been properly valued and that valuation incorporated into the Statement of Accounts.

The pension fund has satisfactory title to all assets and there are no liens or encumbrances on the pension fund's assets.

The value at which assets and liabilities are recorded in the net assets statement is, in the opinion of the authority, the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the pension fund. Any significant changes in those values since the date of the Statement of Accounts have been disclosed to you.

### ***Pension fund registered status***

I confirm that the Leicestershire Pension Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

### ***Bank accounts***

I confirm that I have disclosed all bank accounts to you including those that are maintained in respect of the pension fund.

### ***Subsequent events***

There have been no circumstances or events subsequent to the period end which require adjustment of or disclosure in the statement of accounts or in the notes thereto.

### ***Accounting Estimates***

Regarding the accounting estimates disclosed in note 3 to the Statement of Accounts:

- I confirm the Authority has used appropriate measurement processes, including related assumptions and models, in determining the accounting estimate in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.
- Measurement processes were consistently applied from year to year.
- The assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the authority, where relevant to the accounting estimates and disclosures.
- Disclosures related to accounting estimates are complete and appropriate under the CIPFA/ CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.
- No subsequent event requires adjustment to the accounting estimates and disclosures included in the Statement of Accounts.

### ***Using the work of experts – Valuation of Property, Plant and Equipment***

I agree with the findings of our management expert valuer, an expert in evaluating the Valuation of Property, Plant and Equipment, and have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the Statement of Accounts and underlying accounting records. The Authority did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

### ***Using the work of experts – Pension Fund***

I agree with the findings of our management expert actuary, experts in the valuation of pension fund assets and liabilities, and have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the Statement of Accounts and underlying accounting records. The Authority did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

### ***Assets and liabilities***

The Authority has no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the Statement of Accounts.

In my opinion, on realisation in the ordinary course of the business the current assets in the balance sheet are expected to produce no less than the net book amounts at which they are stated.

The Authority has satisfactory title to all assets and there are no liens or encumbrances on the Authority's assets, except for those that are disclosed in the Statement of Accounts.

I confirm that we have carried out impairment reviews appropriately, including an assessment of when such reviews are required, where they are not mandatory. I confirm that we have used the appropriate assumptions with those reviews.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the year-end have been properly valued and that valuation incorporated into the statement of accounts. When appropriate, open positions in off-balance sheet financial instruments have also been properly disclosed in the Statement of Accounts.

### ***Disclosures***

Where appropriate, the following have been properly recorded and adequately disclosed in the statement of accounts the identity of, and balances and transactions with, related parties.

I confirm that the Authority has recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and has disclosed in the statement of accounts all guarantees that we have given to third parties, including oral guarantees made by the Authority on behalf of an affiliate, member, officer or any other third party.

### ***Retirement benefits***

All significant retirement benefits that the Authority is committed to providing, including any arrangements that are statutory, contractual or implicit in the authority's actions, wherever they arise, whether funded or unfunded, approved or unapproved, have been identified and properly accounted for and/or disclosed.

All settlements and curtailments in respect of retirement benefit schemes have been identified and properly accounted for.

The following actuarial assumptions underlying the valuation of retirement benefit scheme liabilities are consistent with my knowledge of the business and in my view would lead to the best estimate of the future cash flows that will arise under the scheme liabilities:

- Mortality assumptions (in years):
  - Longevity at 65 for current pensioners:
    - Men – 22.2
    - Women – 24.3
  - Longevity at 65 for future pensioners:
    - Men – 24.2
    - Women – 26.6
- Rate of inflation – 2.4%
- Rate of increases in salaries – 4.3%
- Rate of increase in pensions – 2.4%
- Rate for discounting scheme liabilities – 3.2%
- Proportion of employees opting to commute part of their annual pension to a retirement lump sum:
  - Pre April 2008 Service – 50%
  - Post April 2008 Service – 75%

The authority participates in the Teachers' Pension Scheme that is a defined benefit scheme. I confirm that the authority's share of the underlying assets and liabilities of this scheme cannot be identified and as a consequence the scheme has been accounted for as a defined contribution scheme.

***Transactions with members/officers***

No transactions involving members, officers and others requiring disclosure in the Statement of Accounts under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 have been entered into.

***Additional written representations about the Statement of Accounts***

The selection and application of accounting policies are appropriate.

The following have been recognised, measured, presented or disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

- Plans or intentions that may affect the carrying value or classification of assets and liabilities;
- Liabilities, both actual and contingent;
- Title to, or control over assets, liens or encumbrances on assets, and assets pledged as collateral; and
- Aspects of laws, regulations and contractual agreements that may affect the statement of accounts, including non-compliance.

As minuted by the Corporate Governance Committee at its meeting on 25 September 2015.

.....

Chief Financial Officer  
For and on behalf of Leicestershire County Council

Date .....

## Appendix 1 - Related parties and related party transactions

The Authority is required to disclose a list of related party relationships and transactions – bodies or individuals that have the potential to control or influence the Authority or to be controlled or influenced by the Authority.

### Central Government

Central government has effective control over the general operations of the Authority - it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax).

### Members

Members of Leicestershire County Council have direct control over the Authority's financial and operating policies. Members represent the interests of the Authority within a range of organisations and some are also members of district, borough or parish councils within Leicestershire.

Members of Leicestershire County Council have direct control over the authority's financial and operating policies. During 2014/15, works and services to the value of £252,000 were commissioned from a company, in which one member (Mr Blake Pain) had an interest. Contracts were entered into in full compliance with the Authority's standing orders.

During 2014/15 the Authority made payments (grants or contracts) to various voluntary and community sector organisations to the value of £0.3m in which a total of 16 members had an interest. The details are:

Member	Name of Body	Interest	Value £
Mr Richard Blunt	Leicestershire Rural Housing Association	Board Member	155
Mrs Jo Fox	East Midlands Housing	Board Member & Chair of Housing & Regeneration	141,649
Mr Simon Galton	De Montfort Housing Association	Member	2,231
Dr Sarah Hill	Woodland Trust	Member	4,408
Dr Sarah Hill	Leicestershire and Rutland Wildlife Trust	Member	6,500
Mr Max Hunt	Leicestershire and Rutland Wildlife Trust	Member	6,500
Mrs Helen Loydall	Leicestershire and Rutland Wildlife Trust	Member	6,500
Mr Keith Lynch	Next Generation Hinckley	Management Cttee	6,636
Ms Betty Newton	John Storer House Loughborough	Trustee	1,477
Mr Peter Osborne	Bradgate Park and Swithland Woods	Member	27,000
Mr Peter Osborne	National Forest	Member	200
Mr Alan Pearson	Active Melton Social Enterprise	Director	2,475
Mrs Pam Posnett	Melton MENCAP	Chairman Trustee	77,988
Mrs Christine Radford	Bradgate Park and Swithland Woods	Member	27,000
Mr David Snartt	Bradgate Park and Swithland Woods	Trustee	27,000



Mr David Snartt	Voluntary Action Leicester - John Storer House	Observer	1,477
Mr Leon Spence	Thringstone Community Centre	Member of Executive Cttee	806
Mr David Sprason	Fareshare Leicester	Member	3,523
Mr Ernie White	Cotesbach Educational Trust	Trustee	4,490
Mr Michael Wyatt	Broom Leys Committee Alloment Society	Society Member	1,050
Total			<b>349,065</b>

In all instances, the payments were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion or decision relating to the payments. Details of all these transactions are recorded in the *Register of Members' Interest*, which is available for public inspection at [www.leics.gov.uk](http://www.leics.gov.uk). No such payments have been made to organisations whose senior management includes members of the families of members.

### **Officers**

There were no related party transactions declared by the key management personnel of the Authority.

### **Pension Fund**

Leicestershire County Council administers the Leicestershire Local Government Pension Scheme. Leicestershire Pension Fund's accounts are included within the Statement of Accounts.

### **Other Public bodies (subject to common control by Central Government)**

- Eastern Shires Purchasing Organisation (ESPO) - the Authority is a member of the Eastern Shires Purchasing Organisation involved in the negotiation of contracts for supplies to its members and the provision of a central warehouse for the supply of items in common use. During 2014/15 turnover between the Authority and ESPO totalled £6.5m. In 2005, the Authority entered into a 25 year borrowing arrangement of £12.5m on behalf of the constituent members of the consortium to finance the provision of a new warehouse and integrated offices. The loan outstanding as at 31 March 2015 is £7.8m.
- East Midlands Shared Services - the Authority runs a joint operation with Nottingham City Council (NCC) to provide shared transactional finance, human resources and payroll services to both authorities under the name of East Midlands Shared Services (EMSS). During 2014/15 the net cost of EMSS was £2.1m.
- East Midlands Councils (EMC) – the Authority is a member of EMC and paid £9,500 in membership subscriptions during 2014/15. Until 31 March 2014 the County Council was also the servicing authority for EMC. The final balance of funds held by the County Council, £1188,781, was paid to EMC during 2014/15.
- Leicester Shire Connexions Service Limited - the Authority and Leicester City Council each own 50% of the company Leicester Shire Connexions Service Limited. The Director of Children and Family Services and Assistant Director of Strategic

Finance and Property are Directors of Connexions. The company entered voluntary liquidation on 23 May 2014 on a solvent basis. The Authority made no contributions to the company during 2014/15.

- Leicester Shire Promotions Limited (LPL) - the Authority provides funding to Leicester Shire Promotions Limited (LPL) to provide tourism services in the County. The Authority made contributions of £0.2m to LPL during 2014/15.
- Concessionary Travel Fares Scheme - the Authority administers the Concessionary Travel Fares Scheme for areas covered by Leicester City Council and the District Councils in Leicestershire. The net cost for 2014/15 was £5.7m
- Pooled budgets - the Authority has two pooled budget arrangements with local health authorities for the supply of aids for daily living and the provision of services for adults with learning difficulties. Expenditure and income totalling £8.3m and £22.0m were incurred on each pool respectively for 2014/15.
- Leicester, Leicestershire and Rutland Combined Fire Authority - the Authority is a constituent member of Leicester, Leicestershire and Rutland Combined Fire Authority. During 2014/15 the Authority received £0.4m of income from the Leicester, Leicestershire and Rutland Combined Fire Authority for services rendered.





In the event that, pursuant to a request which Leicestershire County Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Leicestershire County Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Leicestershire County Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Leicestershire County Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

This document has been prepared only for Leicestershire County Council and solely for the purpose and on the terms agreed through our contract with the Audit Commission. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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