



# External Audit Report to those charged with governance (ISA 260) 2015/16

**Leicestershire County Council**  
**Leicestershire Local Government Pension Fund**

—  
September 2016



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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website ([www.psaa.co.uk](http://www.psaa.co.uk)).

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.

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 John Cornett, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to [andrew.sayers@kpmg.co.uk](mailto:andrew.sayers@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](mailto: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.



# Section one: Introduction



**This document summarises:**

- The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for both the Authority and its pension fund; and
- Our assessment of the Authority’s arrangements to secure value for money.

**Scope of this report**

This report summarises the key findings arising from:

- Our audit work at Leicestershire County Council (‘the Authority’) in relation to the Authority’s 2015/16 financial statements and those of the Local Government Pension Scheme it administers (‘the Fund’); and
- The work to support our 2015/16 conclusion on the Authority’s arrangements to secure economy, efficiency and effectiveness in its use of resources (‘VFM conclusion’).

**Financial statements**

Our *External Audit Plan 2015/16*, presented to you in February 2016, set out the four stages of our financial statements audit process.



This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during August/September 2016.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

**VFM Conclusion**

Our External Audit Plan 2015/16 explained our risk-based approach to VFM work. We have now substantially completed the work to support our 2015/16 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas; and
- carrying out additional risk-based work.

**Structure of this report**

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Authority and the fund.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1.

**Acknowledgements**

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.



# Section two: Headlines



This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

**This table summarises the headline messages. Sections three and four of this report provide further details on each area.**

<p><b>Proposed audit opinion</b></p>	<p>We anticipate issuing an unqualified audit opinion on the Authority’s financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007 and subsequent addendum.</p> <p>We also anticipate issuing an unqualified audit opinion in relation to the Fund’s financial statements, as contained both in the Authority’s Statement of Accounts and the Pension Fund Annual Report by 30 September 2016.</p>
<p><b>Audit adjustments</b></p>	<p>One academy lease was surrendered during 2015/16, therefore the related assets (buildings) should have been brought back onto the Authority’s balance sheet. However, the Finance team were not informed of the lease surrender resulting in the incorrect accounting treatment of capital expenditure (£2.8m) relating to this asset during the year. Due to the complexity of the adjustments required to correct this matter a number of statements and notes to the accounts have had to be adjusted. We have undertaken a review of all the adjustments made in relation to this matter and are satisfied they have been correctly adjusted.</p> <p>We identified that for the Accounts Receivable ledger, balances transactions were manually categorised into their respective pay groups, thereby increasing the risk of transactions being incorrectly categorised. Our testing found that Short term debtors of £500k relating to central government were incorrectly included in “other entities” debtors. The financial statements have been amended for this transaction.</p> <p>Our audit also identified a small number of minor presentational misstatements in the financial statements. These have been discussed with management and the financial statements are amended for all identified audit adjustments and presentational misstatements.</p>
<p><b>Key financial statements audit risks</b></p>	<p>We identified the following key financial statements audit risks in our 2015/16 External Audit Plan issued in February 2016.</p> <ul style="list-style-type: none"> <li>— Asset Valuations and the implementation of IFRS 13</li> </ul> <p>The Authority’s in-house valuer undertook valuations during the 2015/16 financial year. We have undertaken our assessment of the valuer, including reviewing the terms of engagement to ensure compliance with the Authority’s accounting policies. We obtained the instructions provided to the valuer and considered the source of the information, undertaking appropriate testing to ensure both its completeness and accuracy. Our work also reviewed the appropriateness of any amendments made by management to the information received from the valuer before being incorporated into the financial statements. Our work did not identify any significant issues nor material audit differences.</p> <p>We have worked with officers throughout the year to discuss these key risk(s) and our detailed findings are reported in section 3 of this report. There are no matters of any significance arising as a result of our audit work in these key risk areas.</p>



This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

This table summarises the headline messages. The remainder of this report provides further details on each area.

<p><b>Accounts production and audit process</b></p>	<p>We received complete draft 2015/16 accounts by 30 June 2016, in accordance with the requirements of the Accounts and Audit Regulations. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code.</p> <p>The Authority has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p> <p>We will debrief with the Technical Accounting Team (TAT) Strategic finance team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2016/17 audit process. In particular we would like to thank Authority Officers who were available throughout the audit visit to answer our queries.</p>
<p><b>VFM conclusion and risk areas</b></p>	<p>We identified Delivery of Saving Plans as a VFM risk from our risk assessment work which we reported to you in our Audit Plan in February 2016.</p> <p>We have worked with officers throughout the year to discuss this VFM risk and our detailed findings are reported in section 4 of this report. There are no matters of any significance arising as result of our audit work in this VFM risk area.</p> <p>We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2016.</p>



This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

This table summarises the headline messages. The remainder of this report provides further details on each area.

<b>Completion</b>	<p>At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas:</p> <ul style="list-style-type: none"> <li>— Final KPMG Director and Manager review</li> <li>— Clearing any residual queries with officers as part of our completion procedures</li> <li>— The final casting and consistency checks on the amended financial statements</li> <li>— Our normal audit closure and reporting procedures</li> </ul> <p>You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Section 151 Officer. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.</p>
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# Section three: Financial Statements

# Proposed opinion and audit differences



We have proposed an adjustment for PPE.

We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements by 30 September 2016.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007 and subsequent addendum.

### Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Authority.

### Audit differences

In accordance with ISA 260 we are required to report 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.

The final materiality (see Appendix two for more information on materiality) level for this year's audit was set at £8.5 million. Audit differences below £0.425 million are not considered significant.

One academy lease was surrendered during 2015/16, therefore the related assets (buildings) should have been brought back onto the Authority's balance sheet. However, the Finance team were not informed of the lease surrender resulting in the incorrect accounting treatment of capital expenditure (£2.8m) relating to this asset during the year. Due to the complexity of the adjustments required to correct this matter a number of statements and notes to the accounts have had to be adjusted. We have undertaken a review of all the adjustments made in relation to this matter and are satisfied they have been correctly adjusted.

We identified that for the Accounts Receivable ledger, balances transactions were manually categorised into their respective pay groups, thereby increasing the risk of transactions being incorrectly categorised. Our testing found that Short term debtors of £500k relating to central government were incorrectly included in "other entities" debtors. The financial statements have been amended for this transaction.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). These have been discussed with management and the financial statements are amended for all identified audit adjustments.

### Disclosures requirements:

The Property Plant and Equipment (PPE) Note (note15) does not fully compile with code as it only gives net book values (NBV) and not gross book values (GBV). This is due to the Authority's Fixed Asset Register (FAR) not being able to calculate the GBVs. A new FAR is planned for 2016/17 which will resolve the issue in the 2016/17 Financial Statements.

### Annual governance statement:

We have reviewed the Annual Governance Statement and confirmed that:

- It complies with Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE; and
- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We have made a small number of comments in respect of its format and content which the Authority has agreed to amend where significant.

### Annual Performance report

We have reviewed the Authority's annual report and can confirm it is consistent with the financial information contained in the audited financial statements.

# Proposed opinion and audit differences (cont.)



We have identified no issues in the course of the audit of the Fund that are considered to be material.

We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2016.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.

## Pension fund audit

Our audit of the Fund did not identify any material misstatements.

For the audit of the Fund we used a materiality level of £31 million. Audit differences below £1.55 million are not considered significant.

We anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by the Corporate Governance Committee on 23 September 2016.

We identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code. We understand that the Fund will be addressing these where significant.

## Pension fund annual report

We have reviewed the 2015/16 Leicestershire County Council Pension Fund and confirmed that:

- It complies with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008; and
- The financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

We anticipate issuing an unqualified opinion on the Leicestershire County Council Pension Fund at the same time as our opinion on the 2015/16 Statement of Accounts.

# Significant audit risks



We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our External Audit Plan 2015/16, presented to you in February 2016, we identified the significant risks affecting the Authority's 2015/16 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Authority.

### Asset Valuation and IFRS 13

#### — Risk

Due to the inherent risk associated with the estimation of assets and the implementation of IFRS 13 which require surplus assets to be measured at fair value for 2015/16, we considered this to be a significant risk.

#### — Findings

We undertook the following procedures over this significant risk:

- We reviewed the terms of engagement with the valuer to ensure compliance with the Authority's accounting policies.
- We reviewed the revaluation basis and considered its appropriateness with the CIPFA Code of Practice and the underlying IFRS accounting standards.
- We undertook appropriate work to understand the basis upon which any impairments had been calculated.

There are no matters arising from this work that we need to bring to your attention.

# Significant audit risks



We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

Below we set out the outcome of our audit procedures and assessment on these risk areas.

### Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2015/16* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

Nothing has arisen from our audit work to lead to us altering our decision and as such this is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

### Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

Some members of the TAT Strategic finance team are able to both create and post journal entries. There is separation between journal creation and journal postings in other finance teams and whilst access to the system is limited by user access rights, there is no formal review process in place prior to or after posting journals to the general ledger. There is a risk that if journal entries are not independently reviewed, posting could contain material errors. We have identified through our work over non-pay expenditure that Oracle has the

# Other areas of focus



In our External Audit Plan 2015/16, presented to you in February 2016, we identified 1 area of audit focus. This is not considered a significant risk but an area of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings for the area of audit focus.

capability for authorisation processes to be set up. We have made a recommendation that a risk based review process should be in place to review journals in future. There are no other matters arising from this work that we need to bring to your attention.

## MRP Policy

- Area

The Authority is considering updating its MRP policy. This risk affects only the Authority.

- Findings

We reviewed compliance with the existing policy and confirmed that the existing policy was followed for 2015/16. There are no matters arising from this work that we need to bring to your attention. The Authority is considering updating its MRP policy during 2016/17 and we will review any changes made during our 2016/17 audit.

# Judgements



We always consider the level of prudence within key judgements in your financial statements. We have summarised our view below using the following range of judgement:



Assessment of subjective areas				
Asset/liability class	15/16	14/15	Balance (£m)	KPMG comment
<b>Provisions</b>	3	3	£8.1 million <i>(PY: £9million)</i>	There have been no significant changes in the approaches to determining the estimate. The change in the level of the provision on the previous year is not material.
<b>Property, Plant and Equipment</b>	3	3	£834.0 million <i>(PY: £794.3million)</i>	We have reviewed the arrangements and discussed the approach with managers. The Authority has not made any significant changes to its approach to asset lives or its valuation arrangements.
<b>Pensions Liability</b>	3	3	£523.7 million <i>(PY: £731.0 million)</i>	There have been no significant changes in the approaches to determining the estimate. The Authority has again relied on an independent expert actuarial valuation for its estimates. We did not identify any concerns regarding the Authority's approach or the assumptions used.

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# Accounts production and audit process



The Authority has good processes in place for the production of the accounts. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.

## Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
<b>Accounting practices and financial reporting</b>	The Authority continues to maintain a good financial reporting process and produce statements of accounts to a good standard. We consider that accounting practices are appropriate.
<b>Completeness of draft accounts</b>	We received a complete set of draft accounts by 30 June 2016. We have worked with officers throughout the year to identify and discuss potential issues that could affect the closedown process, and the Authority's response to these issues.
<b>Quality of supporting working papers</b>	Our <i>Accounts Audit Protocol</i> , which we issued in February 2016 and discussed with Head of Service - Finance, set out our working paper requirements for the audit. The quality of working papers provided met the standards specified in our <i>Accounts Audit Protocol</i> .
<b>Response to audit queries</b>	The officers resolved all audit queries in a timely manner.

Element	Commentary
<b>Pension Fund Audit</b>	The audit of the Fund was completed in June/July 2016. There are no specific matters to bring to your attention relating to this.



# Accounts production and audit process (cont.)

The Authority has good processes in place for the production of the accounts. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.

## Findings in respect of the control environment for key financial systems

Journal entries can be created and posted by the same individual. While access to the system is limited by user access rights, there is no formal review process in place prior to or after posting journals to the general ledger. There is a risk that if journal entries are not independently reviewed, posting could contain material errors. We have identified through our work over non-pay expenditure that Oracle has the capability for authorisation processes to be set up.

Due to a delay by HM Treasury to issue the Whole of Government Accounts (WGA) submission pack, by two months, the Council failed to meet the revised deadline of 12 August 2016 for the unaudited version of the WGA submission to DCLG; this was due to pre planned staff holidays. The return was submitted on 23 August.

Mapping of some accounts and Service Reporting Code of Practice (SeRCOP) is currently a manual process but with specific identifiable coding, this would make the process more efficient and would assist with WGA

We have made recommendations to address these areas.

## Prior year recommendations

As part of our audit we would specifically followed up the Authority's progress in addressing any recommendations raised by the previous auditor in last years ISA 260. No recommendations were made therefore no follow up has been required.

## Narrative statement

This is a new statement this year, replacing the Explanatory Foreword. We are pleased to report that the draft statement includes all the required disclosures.

We have discussed with officers whether the presentation can be improved by varying the types of graphics used. Management will consider this for future years.

## Post Balance Sheet Events

We have asked the Authority to add a note referring to the impact on Brexit as a note in the accounts and in the Narrative Statement as a matter impacting on the future. We have supplied proforma wording for the Authority.



We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

### Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Leicestershire County Council and the Leicestershire Pension Fund for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Leicestershire County Council and the Leicestershire Pension Fund, 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 Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

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

### Management representations

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 have provided a template to the Section 151 Officer for presentation to the Corporate Governance Committee. We require a signed copy of your management representations before we issue our audit opinion.

### Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report.



# Section four: Value for Money

# VFM Conclusion



Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

## Background

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

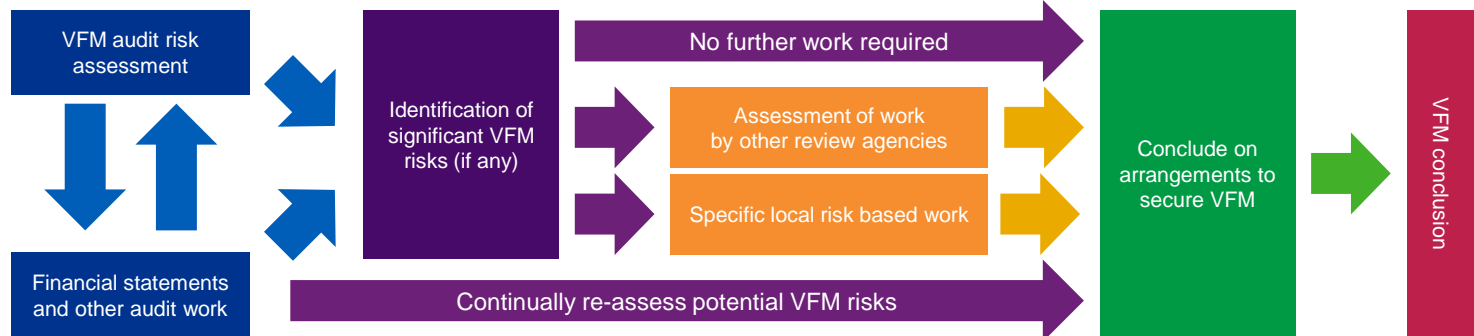
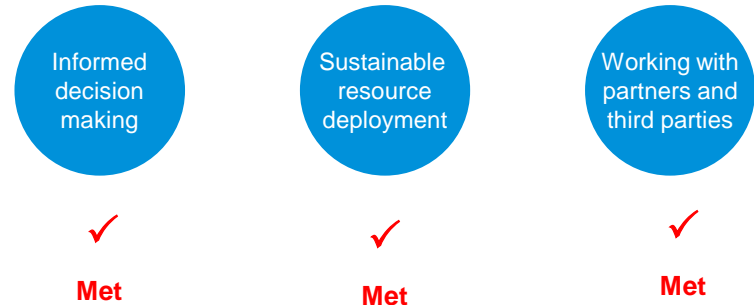
The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Authority.

## Conclusion

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

**Overall criterion**  
In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.



# Specific VFM Risks



We identified a single specific VFM risk.

We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to this risk area are adequate.

## Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- Assessed the Authority's key business risks which are relevant to our VFM conclusion;
- Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- Considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas; and
- Completed specific local risk based work.

## Key findings

On the next page we set out the findings in respect of the area where we have identified a residual audit risk for our VFM conclusion.


We concluded that we needed to carry out additional work. This work is now complete and we also report on this on the next page.

Section four

# Specific VFM Risks (cont.)

We identified a single specific VFM risk. Relating to financial resilience and capacity.

We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to this risk area are adequate.


Key VFM risk	Risk description and link to VFM conclusion	Assessment
	<p>The Authority's budgets over recent years have delivered planned savings, but further strong financial challenges lie ahead. The Authority forecasts predict that over the forthcoming years, additional savings will need to be found as it faces further expenditure pressures and a continued reduction in resources.</p> <p>The Authority is currently refreshing its Medium Term Financial Strategy for 2016/17 –2019/20 to take account of the impact of reduced government funding. The refreshed plan requires efficiencies of £78 million over the four year period, and the need to deliver £27 million of savings in 2016/17. The Authority has currently identified £59 million of these savings.</p> <p>The Authority faces continued budget pressure arising from the demand on adult social care (£23 million) and children's social care (£9 million).</p>	<p>We have considered the Authority's arrangements for managing its annual budget and the 2015/16 outturn. For 2015/16 the Authority's outturn was contained within the approved budget and as forecast throughout the year. However, in the current economic climate of continued financial pressures there are still significant challenges that lie ahead both for the Authority and the sector as a whole.</p> <p>We have also reviewed the Authority's savings programme focussing on the delivery of savings plans and the arrangements the Authority has in place to identifying further savings in future years. Our view is that the Authority has robust plans in place to address the financial challenge but we recognise that difficult decisions still remain to be taken to address the predicted budget shortfall, £0.6m in 2017/18 rising to £19.5m in 2019/20.</p> <p>The scale of the financial challenge remains significant and the ability of the Authority to continue to deliver a balanced budget whilst still providing its statutory services while Council Tax increases are restricted and grant funding is reducing.</p> <p>Over the last five years the Authority has delivered savings of £100m, with savings of £58.8m forecast to be made over the next four years (2016/20), £26.7m of these are planned to be delivered in 2016/17. Given the savings already delivered this is a challenging task and the pressure to achieve further savings is unlikely to diminish going forward.</p> <p>Some of the key areas for planned savings over the next four years included Children and Family Services (£8.8m), Adult Social Care (£16.7m), Highways and Transport (£13.4m) and Corporate Resources (£8.4m). In addition, the Authority faces significant demand and cost pressures over the period of the MTFS with significant growth of £41.3m required to meet these pressures, £23m of which is required in 2016/17. Main areas of growth within the MTFS include Adult Social Care (£23m) and Children and Family Services (£8.9m).</p> <p>The Authority's ability to deliver its MTFS and planned savings will require focus, discipline and innovation, and whilst the Authority's Transformation Programme will play a key role in supporting the delivery there will need to</p>

Section four

# Specific VFM Risks (cont.)

We identified a single specific VFM risk. Relating to financial resilience and capacity.

We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to this risk area are adequate.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
		<p>be continued proactive management of the risks associated with planned savings. Such risks include:</p> <ul style="list-style-type: none"> <li>• public acceptance of some savings, for example, the rural bus subsidy;</li> <li>• the need to tightly control demand led budgets in Children's and Adults' Social care; and</li> <li>• the potential technical difficulty of some projects such as the "digital council".</li> </ul> <p>The Authority continues to have a strong level of reserves. As at 31 March 2016 the General County Fund £40.4m (£27.2m 14/15) and Earmarked Revenues Reserves £90.6m (£103.3m 14/15). Given the uncertainties and risks that lie ahead for the sector as a whole, and the individual pressures and challenges the Authority faces in the short to medium term, the level of reserves are appropriate for the size of the organisation. However, the Authority should continue to review its reserves requirements on a periodic basis and the level of reserves will continue to be an element within our Value for Money work for future years.</p>



# Appendices

**Appendix one: Key issues and recommendations**

**Appendix two: Audit differences**

**Appendix three: Independence and objectivity**



# Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

## Priority rating for recommendations

<b>1</b>	<b>Priority one:</b> 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.	<b>2</b>	<b>Priority two:</b> 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.	<b>3</b>	<b>Priority three:</b> 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.
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No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	<b>2</b>	<p><b>Journals:</b></p> <p>Some members of the TAT Strategic finance team are able to both create and post journal entries. There is separation between journal creation and journal postings in other finance teams and whilst access to the system is limited by user access rights, there is no formal review process in place prior to or after posting journals to the general ledger. There is a risk that if journal entries are not independently reviewed, posting could contain material errors. We have identified through our work over non-pay expenditure that Oracle has the capability for authorisation processes to be set up.</p> <p><b>Recommendation:</b> The Council should consider implementing a formal review process for journals either through automated authorisation processes built into Oracle as a recurring control or a monthly management review of journal entries based on a materiality level.</p>	<p><b>Head of Finance</b></p> <p>The County Council has started a review of journal authorisation and the potential use of Oracle to automate this process.</p> <p>Due Date: 31 December 2016 for completion of assessment with implementation plan to follow the assessment.</p>

# Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
2	3	<p><b>WGA submission:</b></p> <p>Due to a delay by HM Treasury to issue the Whole of Government Accounts (WGA) submission pack, by two months, the Council failed to meet the revised deadline of 12 August 2016 for the unaudited version of the WGA submission to DCLG; this was due to pre planned staff holidays. The return was submitted on 23 August.</p> <p><b>Recommendation:</b></p> <p>The Council should consider including the WGA preparation and submission within the detailed closedown timetable for 2016/17 to avoid missing the deadline and ensure that flexibility is built into the timetable in order for staff to complete the return despite other commitments.</p>	<p><b>Head of Finance</b></p> <p>Due to delays by the Treasury in releasing the final WGA submission pack, by two months, the revised deadline was not possible for the 2015/16 return. DCLG were advised of the delay and the completed pack was submitted on 23 August 2016, due to pre planned staff holidays.</p> <p>This will be reviewed as part of planning the closedown timetable for 2016/17, but we are dependent on third parties providing the information timely.</p> <p>Due date: 31 December 2016</p>
3	3	<p>Mapping of certain accounts balances and SERCOP is currently a manual process but with specific identifiable coding, this would make the process more efficient and would even assist with WGA.</p>	<p><b>Head of Finance</b></p> <p>Certain balances require manual apportionment within the final statements, such as short term and long term creditor balances at the balance sheet date.</p> <p>This will be reviewed to see where improvements can be made and liaise with KPMG for examples / experience of other clients.</p> <p>Due date: 31 December 2016</p>

# Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
4	2	<p><b>Academy Lease Surrender:</b></p> <p>One academy lease was surrendered during 2015/16, therefore the related assets (buildings) should have been brought back onto the Authority's balance sheet. However, the Finance team were not informed of the lease surrender resulting in the incorrect accounting treatment of capital expenditure (£2.8m) relating to this asset during the year.</p> <p><b>Recommendation:</b></p> <p>The Council should consider implementing a formal process for the Authority's Legal and/or Property departments to inform the Finance team of any Academy lease surrenders as they occur during the year.</p>	<p><b>Head of Finance</b></p> <p>Agreed. This will be implemented for 2016/17</p> <p>Due date: 31 December 2016</p>

# Follow up of prior year recommendations

No recommendation made in the previous auditors ISA 260 Report 2014/15.

This appendix summarises the progress made to implement the recommendations identified in the previous auditors ISA 260 Report 2014/15 and re-iterates any recommendations still outstanding.

No recommendations made in the previous auditors ISA 260 2014/15 therefore no follow up required.

# Audit differences

This appendix sets out the audit differences.

The financial statements have been amended for all of the errors identified through the audit process.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Corporate Governance Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

### Uncorrected audit differences

We confirm that there are no uncorrected misstatements, other than those that we believe are clearly trivial.

### Corrected audit differences

#### Material misstatements

We confirm that there are no material misstatements.

#### Non material audit differences

Our audit identified a small number of non material errors in the financial statements, including the surrender of an Academy lease and short term debtors. These have been discussed with management and the financial statements have been amended for all of them.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). These have been discussed with management and the financial statements are amended for all identified audit adjustments.

#### Disclosures requirements:

The Property Plant and Equipment Note (note 15) does not fully compile with the Cipfa Code of Practice as it only gives net book values (NBV) and not gross book values (GBV). This is due to the Authority's Fixed Asset Register (FAR) not being able to calculate the GBVs. A new FAR is planned for 2016/17 which will resolve the issue in the 2016/17 Financial Statements.

#### Pension Fund

Our audit did not identify any material misstatements. There were a number of minor presentational matters, which Officers have amended to ensure that the accounts are compliant with the Code.

# Materiality and reporting of audit differences

For 2015/16 our materiality is £8.5 million for the Authority's accounts. For the Pension Fund it is £31 million.

We have reported all audit differences over £0.425 million for the Authority's accounts and £1.55 million for the Pension Fund, to the Corporate Governance Committee.

### Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2015/16, presented to you in February 2016.

Materiality for the Authority's accounts was set at £8.5 million which equates to around 1% percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

### Reporting to the Corporate Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Corporate Governance Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.425 million for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Corporate Governance Committee to assist it in fulfilling its governance responsibilities.

### Materiality – Pension fund audit

The same principles apply in setting materiality for the Pension Fund audit. Materiality for the Pension Fund was set at £31 million which is approximately 1% percent of gross assets.

We design our procedures to detect errors at a lower level of precision, set at £1.55 million for 2015/16.

# Declaration of independence and objectivity

**Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.**

## Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

*"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."*

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 Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd 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. Public Sector Audit Appointments Ltd 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. We do this in our *Annual Audit Letter*.

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 Corporate Governance 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 Engagement Lead and the audit team.

# Declaration of independence and objectivity (cont.)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

### 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.

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 Leicestershire County Council and the Leicestershire Pension Fund for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Leicestershire County Council and the Leicestershire Pension Fund, 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 Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.



# Audit Independence

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

## Audit Fees

Our scale fee for the audit was £76,950 plus VAT, and £27,637 plus VAT for the Pension Fund. This scale fee was in line with that highlighted within our External Audit Plan 2015/16 reported to the Corporate Governance Committee in February 2016.

## Non-audit services

We have not carried out any non-audit work at the Authority.



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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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