



External audit report 2016/17

Leicestershire County Council
Leicestershire Local Government Pension
Fund

September 2017



Summary for Corporate Governance Committee

Financial statements

This document summarises the key findings in relation to our 2016-17 external audit at Leicestershire County Council ('the Authority') and those of the Local Government Pension Scheme it administers ('the Fund').

This report focusses on our on-site work which was undertaken during June and July 2017 on the Authority's significant risk areas, as well as other areas of your financial statements. Our findings are summarised in Section 1.

Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 30 September.

We also anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements by 30 September 2017.

There are currently the following outstanding matters:

- Final audit Director review;
- Addressing any remaining audit queries and any matter arising from our completion procedures;
- General audit file completion and review procedures;
- Post balance sheet events review up to the date of signing the audit opinion; and
- Final review of working papers and amended accounts.

There were a small number of minor presentational matters which officers agreed to amend in the final statement of accounts. There are no audit adjustments that we need to report to you.

Based on our work, we have raised two recommendations. [Details on our recommendations can be found in Appendix 1].

Subject to clearance of our final queries and final (including Director) review we are moving into the completion stage of the audit and currently anticipate issuing our completion certificate alongside the opinion and vfm conclusion in September 2017.

Use of resources

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure it has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing an unqualified value for money opinion.

See further details in Section 2.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work. Particularly the Strategic Finance Technical Accounting Team who successfully produced the draft accounts two months earlier this year, without loss of quality, in readiness for the 2017/18 earlier deadline.

We ask the Corporate Governance Committee to note this report.

Contents

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This report is addressed to Leicestershire County Council (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).

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). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Section one

Financial Statements



We anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements and the Fund by 30 September 2017. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE (*'Delivering Good Governance in Local Government'*) published in April 2016.

For the year ending 31 March 2017, the Authority has reported a surplus on the provision of services of £4.3m. This has contributed to an increase in the total Usable Reserves, increasing to £156.2m.



Significant audit risks

Our *External Audit Plan 2016/17* sets out our assessment of the Authority's significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

Significant audit risks	Work performed
<p>1. Significant changes in the pension liability due to LGPS Triennial Valuation (Authority and Pension Fund)</p>	<p>Why is this a risk?</p> <p>During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2016 in line with the <i>Local Government Pension Scheme (Administration) Regulations 2013</i>. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation.</p> <p>There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by the Council, who administer the Pension Fund.</p> <p>Our work to address this risk</p> <p>We have reviewed the process used to submit payroll data to the Pension Fund and have found no issues to note. We have also tested the year-end submission process and other year-end controls.</p> <p>We have also substantively agreed the total figures submitted to the actuary to the ledger with no issues to note. We have engaged with your Pension Fund audit team to gain assurance over the pension figures. There are no matters arising from this work that we need to bring to your attention.</p>
<p>2. Implementation of a new Fixed Asset Register</p>	<p>Why is this a risk?</p> <p>During the year the Council implemented a new Fixed Asset Register (FAR). It is used for the recording of all fixed assets, such as land and buildings, including book values, depreciation and any revaluations or impairments to fixed assets.</p> <p>There is a risk that the new system and the new arrangements are not implemented and operating effectively according to the required timetable, and that the data is not transferred between the systems completely and accurately.</p> <p>Our work to address this risk</p> <p>We liaised with the Council's finance team to evaluate the steps taken in the management of the changeover from the old to the new FAR and found no issues to note.</p> <p>We have also reviewed, and as appropriate, re-performed the work carried out to confirm the data transferred correctly and agreed the opening balances with no issues noted from the work carried out.</p>

Considerations required by professional standards

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 2016/17* 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.

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.

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

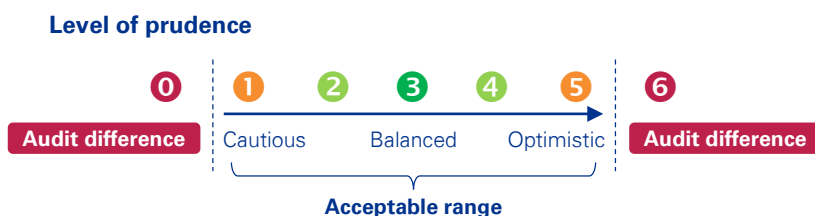
Other areas of audit focus

We identified one area of audit focus. This is not considered as a significant risk as it is less likely to give rise to a material error. Nonetheless this is an area of importance where we would carry out substantive audit procedures to ensure that there is no risk of material misstatement.

Other areas of audit focus	Our work to address the areas
1. Disclosures associated with retrospective restatement of CIES, EFA and MiRS	<p>Background</p> <p>CIPFA has introduced changes to the 2016/17 Local Government Accounting Code (Code):</p> <ul style="list-style-type: none"> — Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and — Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MiRS) and replaces the current segmental reporting note. <p>The Authority was required to make a retrospective restatement of its CIES (cost of services) and the MiRS. New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable accounting standards.</p> <p>What we have done</p> <p>For the restatement, we have obtained an understanding of the methodology used to prepare the revised statements. We have also agreed figures disclosed to the Authority's general ledger and found no issues to note.</p>

Judgements

We have considered the level of prudence within key judgements in your 2016/17 financial statements and accounting estimates. We have set out our view below across the following range of judgements.



Subjective areas	2016/17	2015/16	Commentary
Non Domestic Rates Provisions	3	3	The Council has established a £2.4m (2015/16 £2.2m) provision to meet its share of the cost of any successful rateable value appeals. The provision has been estimated on a similar basis to that in previous years and we concluded that it was not materially misstated.
Provisions (excluding NDR)	3	3	There have been no significant changes in the approaches to determining the estimate. The provisions (excluding NDR) total of £5.4m (2015/16 £5.9m) is made up of a number of provisions. The change in the level of the provision on the previous year is not material. We consider the provision disclosures to be proportionate
Property, Plant and Equipment	3	3	PPE are valued at £874.8m (2015/16 £835.4m). The Authority has utilised an internal valuation experts to provide valuation estimates. There has been no significant changes to the Authority's approach to asset lives or its valuation arrangements.
Pension Liability	3	3	The Pension liability is £614.5m (2015/16 £523.7m). 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.

Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements following approval of the Statement of Accounts by the Corporate Governance Committee on 22nd September 2017.

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 3) for more information on materiality) level for this year's audit was set at £14.75 million. Audit differences below £0.75 million are not considered significant.

We did not identify any material misstatements. A small number of issues were identified that have been adjusted by management, they do not have a material effect on the financial statements.

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 2016/17 ('the Code'). We understand that the Authority will be addressing these where significant.

Annual governance statement

We have reviewed the Authority's 2016/17 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.

Narrative report

We have reviewed the Authority's 2016/17 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

The Pension Fund

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Fund's 2016/17 financial statements following approval of the financial statements by the Pension Fund Committee.

Pension fund audit

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

A difference of £5.8 million was noted in yearend private equity valuation figures reported by the fund managers to the figure included in the financial statements. The figures reported in the accounts was based on quarter 3 valuation reports from the fund managers and adjusted for quarter 4 cash flows. The Pension fund will not adjust these figures in final accounts due to the late availability of fund manager reports after the yearend. Going forward, in order to achieve the early closedown the approach is reasonable.

Again, we have set out the significant audit differences in Appendix 2 and it is our understanding that the Pension fund will not adjust these figures in financial Statements

In addition, 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.

Annual report

We have reviewed the Pension Fund Annual Report 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 Pension Fund Annual Report at the same time as our opinion on the Statement of Accounts.

Net assets as at 31 March 2017

£m	Pre-audit	Post-audit	Ref ¹
Net assets of the Fund	3,880	3,886	

¹ See referenced adjustments in Appendix 3.

Accounts production and audit process

The Accounts and Audit Regulations 2015 introduces a statutory requirement to produce a draft set of financial statements earlier for the year 2017/18. It also shortens the time available for the audit.

Our audit standards (*ISA 260*) require us to communicate our views on 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. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.



The Authority has strengthened its financial reporting by finalising the accounts in a shorter timescale. Reducing the timeframe by two months, without any loss in quality of supporting working papers, has put the Authority in a good position to meet the new 2017/18 deadline. However, the challenge will be maintaining this shorter timeframe next year following changes in key officers within the Strategic Finance Technical Accounting Team. The Authority will also need to ensure arrangements are made for the final statements to be approved within the new 2017/18 deadline, see recommendations 1 and 2.

We consider the Authority's accounting practices appropriate.

Completeness of draft accounts

We received a complete set of draft accounts on 31 May 2017, well before the statutory deadline of 30 June 2017.

Quality of supporting working papers

We issued our *Accounts Audit Protocol 2016/17* ("Prepared by Client" request) to the Authority which outlines our documentation request. This helps the Authority and the Fund to provide audit evidence in line with our expectations.

We worked with management to ensure that working paper requirements are understood and aligned to our expectations. We are pleased to report that this has resulted in good-quality working papers with clear audit trails.

Response to audit queries.

We have agreed an aggressive turnaround time of two working days for all audit queries. This was achieved in most areas, except for complex queries where we agreed a different turnaround time on an individual basis and areas where staff who prepared the working papers were not part of the finance team or were not available during the audit.

This achievement puts the Authority in a good position to take on the 2017/18 earlier closedown with no significant concerns.

Controls over key financial systems

We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

We have assessed the effectiveness of your key financial system controls, on which we rely as part of our audit. We found that the financial controls on which we seek to place reliance are operating effectively and there are no exceptions that we need to include in this report.

Pension Fund audit

The audit of the Fund was completed alongside the main audit. A difference of £5.8 million was noted in yearend private equity valuation figures reported by the fund managers to the figure included in the financial statements as stated on page 11.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the four recommendations in last years ISA 260 report.

The Authority has implemented three of the recommendations in our ISA 260 Report 2015/16. The final one related to mapping account balances to SERCOP, however the changes to the code in 16/17 makes this recommendation no longer applicable.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2016/17 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 Leicestershire Local Government Pension Fund for the year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Leicestershire County Council and Leicestershire Local Government 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 4 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 Responsible Finance 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 two

Value for money



Our 2016/17 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 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.



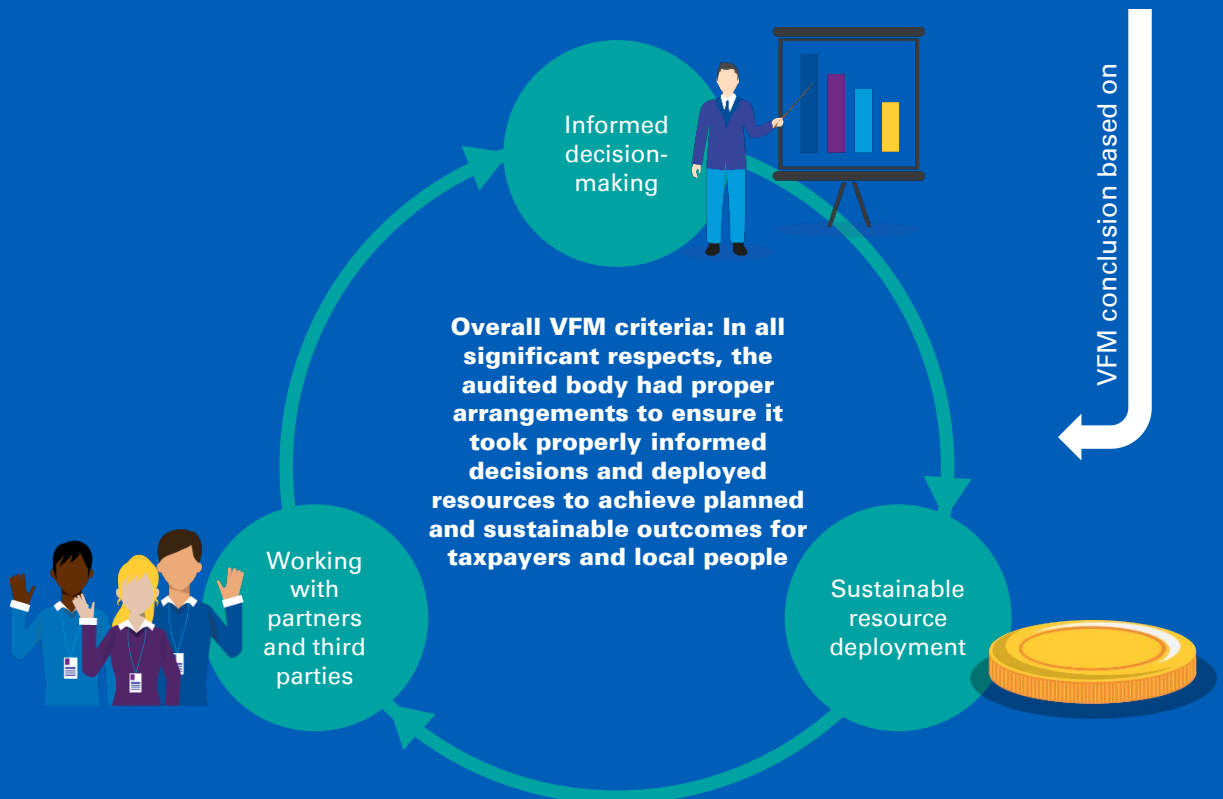
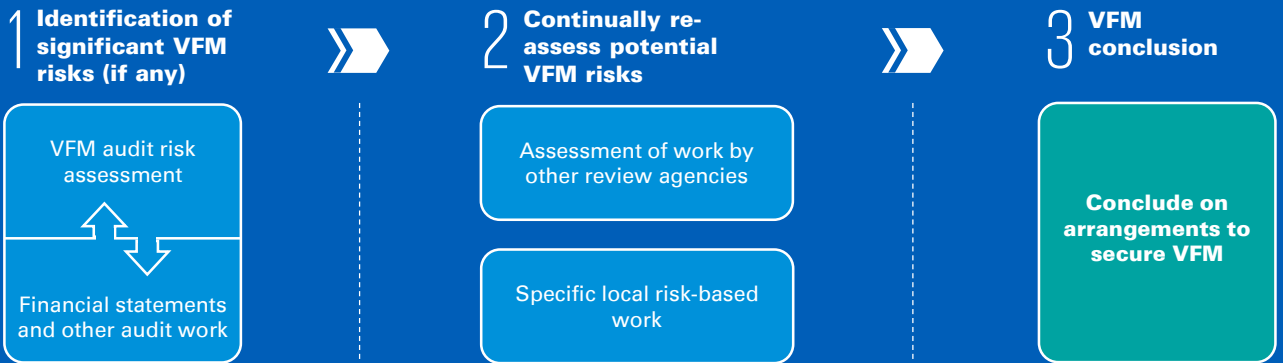
VFM conclusion

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.'

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.



The table below summarises our assessment of the individual VFM risk identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

VFM assessment summary			
VFM risk	Informed decision-making	Sustainable resource deployment	Working with partners and third parties
1. Financial resilience	✓	✓	✓

In consideration of the above, we have concluded that in 2016/17, 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.

Further details on the work done and our assessment are provided on the following pages.

Significant VFM risks

We have identified one significant VFM risk, as communicated to you in our *2016/17 External Audit Plan*. We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to this risk area is adequate.

Significant VFM risks

Work performed

1. Financial resilience

Why is this a risk?

There has been a significant shift in the national outlook over the last 12 months, primarily driven by the outcome of the referendum on 23 June 2016 on the UK's membership of the European Union. Consequently GDP growth forecasts have been revised downwards, which potentially reduces the level of any growth in business rates income. Inflationary pressures, service pressures, and a reduction in the local government finance settlement will impact on the Authority's finances.

In February 2017, the Authority published a draft Medium Term Financial Strategy (MTFS) 2017/18 –2020/21 that sets out a balanced budget for 2017/18.

The Authority has identified funding gaps towards the end of the life of its MTFS; it recognises the significant challenges to close the gap and is taking all reasonable steps to identify savings that are sufficient to bridge the forecast gap in the MTFS and intends to closely monitor the position.

Summary of our work

Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services. We have summarised below and overleaf our key findings in relation to the three criteria for 2016/17 VFM conclusion in relation to the significant risk.

Informed decision making and working with partners and third parties

We have not identified any matters we wish to draw to the Authority's attention in relation to its arrangements for ensuring informed decision making and working with partners and third parties.

Sustainable resource deployment - 2016/17 Outturn

The Authority was able to identify sufficient savings opportunities to set a balanced 2016/17 budget and the planned savings of £27 million were achieved. For 2016/17 the Authority's outturn was contained within the provide budget and as forecast throughout the year.

The level of reserves held by the Authority include balances held on behalf of schools and for joint projects with partners . As at 31 March 2017 the General County Fund £25.8 million (2015/16 £40.4 Million) and Earmarked Revenue Reserves £109.4 million (2015/16 £90.6 million). The level of reserves are appropriate for the size of the organisation given the continued uncertainties and risk that lie ahead for the whole sector and the individual pressure and challenges the Authority faces in the short to medium term.

The level of reserves will continue to be an element within our Value for Money work in the future and the Authority will need to continue to review its reserves requirements on a periodic basis.

Significant VFM risks	Work performed
1. Financial resilience (continued)	<p data-bbox="444 364 939 389">Planned Budget for 2017/18 and future years</p> <p data-bbox="444 410 1345 576">The Authority's MTFS details a balanced budget for 2017/18. However, the MTFS details financial challenges in future years, resulting in the need for further savings over the life of the MTFS. With a total savings and additional income requirement of £66 million over the next four year, £23 million of which is still unidentified. However, the Authority continues to work on identifying further savings and additional income to achieve balanced budgets over the period of the MTFS.</p> <p data-bbox="444 596 1345 677">We have reviewed the Authority's approach to identifying and achieving savings and have found that appropriate arrangements are in place. However, the Authority needs to continue to closely monitor progress and ensure its MTFS is kept up to date.</p>

Appendices



Key issues and recommendations

Our audit work on the Authority's 2016/17 financial statements have identified a small number of issues. We have listed these issues in this appendix together with our recommendations which we have agreed with Management. We have also included Management's responses to these recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations. We will formally follow up these recommendations next year.

Each issue and recommendation have been given a priority rating, which is explained below.

High
priority

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.

Medium
priority

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.

Low
priority

Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

The following is a summary of the issues and recommendations raised in the year 2016/17.

2016/17 recommendations summary

Priority	Total raised for 2015/16	Total raised for 2016/17
High	0	0
Medium	4	2
Low	0	0
Total	4	2

1. Approval of the 2017/18 Final Statement of Accounts within the earlier deadline.

Medium
priority

For 2016/17 the Authority decided to keep the approval of the Final Statement of Accounts to September even though they planned for and successfully produced the draft Statements to meet the new 2017/18 deadline. This decision was to allow for any slippage in the planned earlier close down and accounts production, thereby avoiding the risk of having to alter committee dates at short notice.

However, in order for the Authority to meet the new 2017/18 deadline, arrangements for the earlier approval of the final Statement of Accounts will need to be in place.

Recommendation

Ensure that arrangements have been made for the appropriate approval of the final Statements of Accounts in accordance with the new 2017/18 deadline.

Management Response

Accepted

Owner

Chris Tambini

Deadline

31 December 2017

2. Key Staff changes within the Strategic Finance Technical Accounting Team

Medium
priority

The Strategic Finance Technical Accounting Team (TAT) successfully produced the draft statements two months earlier this year in preparation for the new 2017/18 deadline. However, a key officer within the team left during the year and their replacement is not due to take up post until October 2017. The new officer will be under pressure to learn the requirements of their new role whilst also supporting the team to maintain the early closedown and draft statement production.

There is a risk that this may lead to delays in the production of the draft statements and/or quality issues with supporting working papers. Both of which could have an adverse impact on the length of our audit and the Authority meeting the new 2017/18 deadline.

Recommendation

Ensure adequate support and training is available to TAT during closedown and production of the statements and continue to have regular catch up meetings with ourselves, particularly running up to close down, to monitor progress and address any issues as they arise.

Management Response

Accepted

Owner

Chris Tambini

Deadline

31 December 2017

Audit differences

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.

Our audit did not identify any material misstatements. A small number of issues were identified that have been adjusted by management, they do not have a material effect on the financial statements. There is one unadjusted audit difference on the Pension Fund, of £5.8 million, which is detailed in the table on page 25. In addition there were a small number of presentational matters which officers agreed to amend. We will check these expected amendments have been made to the final statements of accounts before giving our audit opinion.

Unadjusted audit differences – Pension Fund

The following table sets out the uncorrected audit differences identified by our audit of the Fund's financial statements for the year ended 31 March 2017. These differences are individually below our materiality level of £31 million. Cumulatively, the impact of these uncorrected audit differences is £5.8 million. We have also considered the cumulative impact of these unadjusted audit differences on the Authority's financial statements in forming our audit opinion.

Table 4: Unadjusted audit differences (£'000)

No.	Fund account: Dealings with members	Fund account: Returns on investments	Net assets statement: Investment assets	Net assets statement: Net current assets	Basis of audit difference
1	N/A	Cr Change in market value of investments 5,834	Dr Investment 5,834	N/A	A difference of £5.8 million was noted in yearend private equity valuation figures reported by the fund managers to the figure included in the financial statements. The figures reported in the accounts was based on quarter 3 valuation reports from the fund managers and adjusted for quarter 4 cash flows. The Pension fund will not adjust these figures in final accounts due to the late availability of fund manager reports after the yearend. Going forward, in order to achieve the earlier closedown the approach is reasonable.
		Cr 5,834	Dr 5,834	N/A	Total impact of uncorrected audit differences

Materiality and reporting of audit differences

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 2016/17, presented to you in February 2017.

Materiality for the Authority's accounts was set at £14.75 million which equates to around 1.9 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 £0.75 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 0.98 percent of gross assets.

We design our procedures to detect errors at a lower level of precision, set at £1.55 million for 2016/17.

Declaration of independence and objectivity

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.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

Auditor declaration

In relation to the audit of the financial statements of Leicestershire County Council and Leicestershire Local Government Pension Fund for the financial year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Leicestershire County Council and Leicestershire Local Government 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.

Non-audit work and independence

Below we have listed the non-audit work performed and set out how we have considered and mitigated (where necessary) potential threats to our independence.

Summary of non-audit work		
Description of non-audit service	Estimated fee	Potential threat to auditor independence and associated safeguards in place
2014/15 Local Transport Plan Major Projects return	£3,000	<p>Self-interest: This engagement is entirely separate from the audit and there is a separate engagement letter in place.</p> <p>Self-review: The nature of this work is to certify the 2014/15 Local Transport Plan Major Projects return in accordance with the specific assurance instructions set out by Department for Transport (DfT) in S31 AUD. It does not impact on our opinion and we do not consider that the outcome of this work will be a threat to our role as external auditors.</p> <p>Management threat: This work will being undertaken in accordance with the Assurance Instruction S31 AUD provided by DfT.</p> <p>Familiarity: This threat is limited given the scale, nature and timing of the work.</p> <p>Advocacy: We will not act as advocates for the Authority in any aspect of this work. We report our findings directly to DfT.</p> <p>Intimidation: Not applicable.</p>
2015/16 Teachers Pensions Scheme return	£2,500	<p>Self-interest: This engagement is entirely separate from the audit and there is a separate engagement letter in place.</p> <p>Self-review: The nature of this work is to certify the 2015/16 Teachers Pensions Scheme return in accordance with the specific assurance instructions set out by Department for Education (DfE) in TP05. It does not impact on our opinion and we do not consider that the outcome of this work will be a threat to our role as external auditors.</p> <p>Management threat: This work will being undertaken in accordance with the Assurance Instruction TP05 provided by DfE.</p> <p>Familiarity: This threat is limited given the scale, nature and timing of the work.</p> <p>Advocacy: We will not act as advocates for the Authority in any aspect of this work. We report our findings directly to DfE.</p> <p>Intimidation: Not applicable.</p>
Total estimated fees	£5,500	
Total estimated fees as a percentage of the external audit fees	7.2%	

Audit fees

Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audit is £76,950 plus VAT (£76,950 in 2015/16) for the Authority and £27,637 plus VAT (£27,637 in 2015/16) for the Pension Fund. However, we propose an additional fee due to additional work undertaken in relation to the CIES restatement.

PSAA fee table		
Component of audit	2016/17 (planned fee) £	2015/16 (actual fee) £
Accounts opinion and use of resources work		
PSAA scale fee set in [2014/15]	76,950	76,950
Additional work to conclude our opinions (note 1)	TBC	0
Total fee for the Authority set by the PSAA	76,950*	76,950
Pension Fund		
PSAA scale fee set in [2014/15]	27,637	27,637
Additional work to conclude our opinions (note 1)	TBC	
Additional assurance work for admitted bodies (note 2)	TBC	
Total fee for the Fund set by the PSAA	27,637*	27,637

All fees are quoted exclusive of VAT.

Note 1: Accounts opinion and use of resources work

For 2016/17, we have discussed additional fee in relation to the CIES restatement and triennial Pensions valuation with the S151 officer. This is still subject to PSAA determination.

Note 2: Pension Fund - Addition assurance work for admitted bodies

We have also received specific requests from the auditors of other admitted bodies to provide assurance on Pension Fund's control environment to support their audits under the protocols put in place by the PSAA. The work we have done is over and above that we initially planned, therefore there is an additional cost arising from this work. The final amount of this work still to be finalised.

The Pension Fund can consider recharging the assurance work costs to the relevant admitted bodies.

* Does not include the additional fees re Note 1 & 2



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