



CORPORATE GOVERNANCE COMMITTEE – 17 NOVEMBER 2017

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

EXTERNAL AUDITOR – INDEPENDENCE BREACH

Purpose

1. To advise members of a breach of independence between the external auditor, KPMG LLP, and the Leicestershire Pension Fund.

Independence Breach

2. In October 2017, KPMG advised the County Council that they had identified a breach of external auditor independence between themselves and the Leicestershire Pension Fund. A copy of the letter received is included as an Appendix to the report. John Cornett, Director – Public Sector, from our external auditors, KPMG, will attend the meeting in order to present the letter and answer any questions.
3. The breach related to engagements that were entered into between the Leicestershire Pension Fund and the KPMG EU Funds Tax team in 2011 and 2013, before KPMG were external auditors for the Pension Fund. The engagements related to tax services for the recovery of tax paid on overseas equity dividends and part of the engagement was on a contingent fee basis. Auditing Practices Board Ethical Standard 5 (ES5) restricts audit suppliers entering into contingent fee arrangements, for any work, with external audit clients.
4. The engagements were not revised and updated when KPMG became external auditors to the Pension Fund on 1 April 2015 and are therefore in breach of ES5. Since 2013 KPMG had not provided any advice on the engagement and in effect the engagement was 'latent in nature'.
5. KPMG have reviewed the arrangements and concluded that the breach was not significant in terms of overall independence and that their objectivity as the external auditor for the Pension Fund has not been compromised.
6. KPMG have also discussed the breach with Public Sector Auditor Appointments (PSAA), the organisation responsible for external auditor appointments. PSAA have accepted KPMG's assessment and have concluded that there is no further action needed and no implications.
7. The engagements have accordingly been terminated and KPMG will no longer receive a fee should the claims be successful. Action in respect of the claims was

already in the legal stage, so the termination of the KPMG engagement will not have any impact on future progress of the matters.

8. The Director of Finance has reviewed the circumstances of the breach and is satisfied that no further action is required.

Recommendation

9. The Committee is asked to note the information provided in the letter.

Equality and Human Rights Implications

10. None.

Circulation Under the Local Issues Alert Procedure

11. None.

Background Papers

12. None.

Officers to Contact

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Appendices

Letter from KPMG dated 12 October 2017