



# Annual Audit Letter 2017/18

**Leicestershire County Council**

August 2018



**Section one**

# Summary for Corporate Governance Committee



# Summary for Corporate Governance Committee

This Annual Audit Letter summarises the outcome from our audit work at Leicestershire County Council (“the Authority”) in relation to the 2017-18 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority’s website.

This is KPMG’s last Annual Audit Letter to the Authority. We would like to take this opportunity to thank the Authority’s officers and the members of the Corporate Governance Committee for their support throughout the three years of our audit appointment.

## Audit opinion

We issued an unqualified opinion on the Authority’s financial statements on 31 July 2018. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements also include those of the Leicestershire Pension Fund.

## Financial statements audit

Our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole. Materiality for the Authority’s accounts was set at £15.25 million which equates to around 1% of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision. Materiality for the Pension Fund was set at £31 million which is approximately 1% of gross assets.

We report to the Corporate Governance Committee any misstatements of lesser amounts, other than those that are “clearly trivial”, to the extent that these are identified by our audit work. For 2017-18 an individual difference was considered to be clearly trivial for the Authority if it was less than £0.75 million, and for the Pension Fund it was £1.55 million.

We did not identify any material misstatements and there were no unadjusted misstatements identified during our audit of the Authority and the Pension Fund that we are required to report to you.

The earlier deadline this year for the accounts production and audit was challenging and we summarised our findings and recommendations in the *External Audit ISA260 2017-18* report to the July Corporate Governance Committee. We thank the Finance team for their co-operation throughout the visit which allowed the audit to progress within the allocated timeframe.

Our audit work on the Authority’s accounts was designed to specifically address the following significant risks which were identified in our *External Audit Plan 2017-18*:

- **Management Override of Controls** – our audit methodology incorporates the risk of management override as a default significant risk. We did not identify any specific additional risks of management override relating to the audit.
- **Valuation of PPE** – the Authority has adopted, for assets valued internally, a rolling revaluation model which sees all land and buildings revalued over a five year cycle. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value.
- **Pensions Liabilities** – the net pension liability represents a material element of the Authority’s balance sheet. There is a risk that the assumptions and methodology used in the actuarial valuation of the Authority’s pension obligation are not reasonable which could have a material impact on the net pension liability accounted for in the financial statements.

# Summary for Corporate Governance Committee (cont.)

- **Faster Close** – the bringing forward of the national year-end timetable represented a risk to the completion of the audit by the 31 July deadline.

We did not identify any evidence of material misstatement as a result of our audit work on these significant risk areas.

In our External Audit Plan 2017-18 we identified the following significant risk relating to the Pension Fund:

- **Valuation of hard to price investments** – the Pension Fund invests in a wide range of assets and investment funds, some of which are inherently harder to value or do not have publicly available quoted prices, requiring professional judgement or assumptions to be made at year end.

We did not identify any evidence of material misstatement in the Pension Fund accounts as a result of our audit work on this significant risk area.

## Other information accompanying the financial statements

Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any significant issues.

## Value for Money conclusion

We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2017-18 on 31 July 2018. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources. To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.

## Value for Money risk areas

We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks. Our work identified the following significant risks:

- **Delivery of budgets** - the Authority continues to face similar financial pressures and uncertainties to those experienced by others in the local government sector. The Authority needs to have effective arrangements in place for managing its annual budget, generating income and identifying and implementing any savings required to balance its medium term financial plan. As part of our additional risk based work, we reviewed the arrangements the Authority has in place in these areas and for ensuring its continuing financial resilience. We considered the way in which the Authority identifies, approves, and monitors both savings plans and how budgets are monitored throughout the year.

We were satisfied that there were adequate arrangements in place during 2017-18 and there were no significant matters relating to these risk areas which prevented us from giving an unqualified VFM conclusion.

# Summary for Corporate Governance Committee (cont.)

## High priority recommendations

We raised no high priority recommendations as a result of our 2017-18 work and the Authority has fully implemented the recommendations that we made as part of our 2016/17 audit.

## Whole of Government Accounts 2017-18

The Whole of Government Accounts (WGA) return HM Treasury is not yet due at the date of this report. Therefore we have not been able to complete our report to the National Audit Office (NAO). We anticipate completing our work on the Authority's WGA return and submitting our report to the NAO by 30 September 2018.

## Certificate

We have not yet issued our certificate confirming the closure of the audit pending the completion of our work in respect of the Council's Whole of Government Accounts return as outlined previously. We anticipate issuing our certificate by 30 September 2018.

## Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about. We have not identified any matters that would require us to issue a public interest report. In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.

## Audit fee

The 2017-18 scale fees (excluding VAT) set by Public Sector Audit Appointments Limited (PSAA) for the Authority and the Pension Fund are £76,950 and £27,637 respectively. The PSAA scale fees for 2016-17 were £76,950 and £27,637, additionally, we charged £3,672 and £5,010 respectively to cover the further work required as part of that year's accounts opinion and assurances provided to other auditors in respect of the Pension Fund accounts.

We expect to submit a fee variation request to PSAA to cover assurances provided to other auditors in respect of the Pension Fund accounts. Any additional audit fees need to be agreed with the Authority's S.151 Officer before the variation request is submitted to PSAA.

Further detail on our audit fees is contained in Appendix 2.



# Appendices



# Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter.

## External Audit Plan 2017/18

The External Audit Plan set out our approach to the audit of the Authority's financial statements and to support the VFM conclusion.

## Progress Update to Senior Management

We held regular meetings with Senior Management to provide an overview on progress in delivering our responsibilities as your external auditors, and highlighted recent communications and other publications on the main technical issues which were having an impact in local government.

## External Audit ISA260 Report 2017-18

The Report to Those Charged with Governance summarised the results of our audit work for 2017-18 including key issues and recommendations raised as a result of our observations. We also provided the mandatory declarations required under auditing standards as part of this report.

## Auditor's Report 2017-18

The Auditor's Report included our audit opinion on the financial statements (including the pension fund accounts) along with our VFM conclusion.

## Annual Audit Letter

This Annual Audit Letter provides a summary of the results of our audit for 2017-18.

## Whole of Governance Accounts Return 2017-18

We will report to the NAO in relation to the Authority's WGA return and its consistency with the audited Statement of Accounts.

## Audit Certificate 2017-18

We will issue our Audit Certificate, confirming the completion of the audit.

2018

January

February

March

April

May

June

July

August

September

October

# Audit fees

This appendix provides information on our final fees for the 2017-18 audit.

## External audit

The 2017-18 scale fees (excluding VAT) set by Public Sector Audit Appointments Limited (PSAA) for the Authority and the Pension Fund are £76,950 and £27,637 respectively. The PSAA scale fees for 2016-17 were £76,950 and £27,637, additionally, we charged £3,672 and £5,010 respectively to cover the further work required as part of that year's accounts opinion and assurances provided to other auditors in respect of the Pension Fund accounts.

We expect to submit a fee variation request to PSAA to cover assurances provided to other auditors in respect of the Pension Fund accounts. Any additional audit fees need to be agreed with the Authority's S.151 Officer before the variation request is submitted to PSAA. In 2016-17, this fee was £5,010. Fees are recharged by the County Council to the relevant admitted bodies, such as District and Borough Councils.

## Other services

We charged the following for providing independent assurance reports during the year:

2016-17 Teachers Pensions Agency Return: £2,500

This piece of work was not related to our responsibilities under the Code of Audit Practice and was agreed through a separate Engagement Letter.





The key contacts in relation to our audit are:

**John Cornett**

Director

T: 07468 749927

E: [john.cornett@kpmg.co.uk](mailto:john.cornett@kpmg.co.uk)

**Dan Hayward**

Senior Manager

T: 07776 101412

E: [daniel.hayward@kpmg.co.uk](mailto:daniel.hayward@kpmg.co.uk)

**Kerry Sharma**

Assistant Manager

T: 07920 710881

E: [kerry.sharma@kpmg.co.uk](mailto:kerry.sharma@kpmg.co.uk)

**Asim Iqbal**

Assistant Manager

T: 07825 207523

E: [asim.iqbal@kpmg.co.uk](mailto:asim.iqbal@kpmg.co.uk)

**Tom Herbert**

Audit Assistant

T: 07918 377151

E: [tom.herbert@kpmg.co.uk](mailto:tom.herbert@kpmg.co.uk)



**[kpmg.com/uk](http://kpmg.com/uk)**

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. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website ([www.psa.co.uk](http://www.psa.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 Andrew Bush, 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, 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 3HZ.

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