

# *Leicestershire County Council*

## *Report to those charged with governance*

Report to the Corporate Governance Committee of the authority on  
the audit for the year ended 31 March 2013 *(ISA (UK&I)) 260)*

Government and  
Public Sector

August 2013

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

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

# **Contents**

<b>Executive summary</b>	<b>1</b>
<b>Audit approach</b>	<b>2</b>
<b>Significant audit and accounting matters</b>	<b>7</b>
<b>Internal controls</b>	<b>17</b>
<b>Risk of fraud</b>	<b>18</b>
<b>Fees update</b>	<b>21</b>
<b>Appendix 1: Summary of uncorrected misstatements</b>	<b>23</b>
<b>Appendix 2: Letter of representation</b>	<b>24</b>

*An audit of the Statement of Accounts is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters.*

*We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate.*

*This report contains a summary of the results of our audit and matters which we ask the Corporate Governance Committee to consider.*

# Executive summary

## Background

This report tells you about the significant findings from our audit. We presented our plan to you in November 2012; we have reviewed the plan and concluded that it remains appropriate.

## Audit Summary

- We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the Statement of Accounts and your value for money conclusion.
- The key outstanding matters, where our work has commenced but is not yet finalised, are:
  - review of the final adjustments within the Statement of Accounts;
  - receipt of outstanding investment confirmations;
  - approval of the Statement of Accounts and letters of representation; and
  - completion procedures including subsequent events review.
- Your draft accounts (including pension fund) were submitted to us by the June deadline and were of a high quality. Supporting working papers were good and provided on time in the majority of cases.
- Finance staff are always responsive and helpful. They are committed to the audit process and are always looking to improve.

- We did not identify any material audit and accounting issues during our work. However, the Corporate Governance Committee will need to confirm the proposed treatment of unadjusted items listed in Appendix 1.

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

We look forward to discussing our report with you on 23 September 2013. Attending the meeting from PwC will be Richard Bacon.

*Our Audit Approach is risk-based.*

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

## **Audit approach**

### **Smart People**

We continue to deploy our best people on your audit, supported by a substantial investment in training and in our industry programme.

### **Smart Approach**

#### **Data auditing**

We use technology-enabled audit techniques to drive quality, efficiency and insight.

In 2013 the work included testing manual journals through data analytics, so we consider the complete population of manual journals and target our detailed testing on the items with the highest inherent risk.

We have used benchmarking as part of our work on Value for Money. This has included using Audit Commission tools to compare you to other County Councils, and our own analysis when assessing your Medium Term Financial Strategy.

We will also continue to explore ways to extend our use of smart technology and data into other areas where we see an opportunity to add value, as well as for quality and efficiency.

#### **Centre of Excellence**

We have a Centre of Excellence in the UK for Local Government which is a dedicated team of specialists which advises, assists and shares best practice with our audit teams in more complex areas of the audit.

Our team has been working side by side with the Centre of Excellence to ensure we are executing the best possible audit approach.

#### **Delivery centres**

We use dedicated delivery centres to deliver parts of our audit work that are routine and can be done by teams dedicated to specific tasks; for example these include confirmation procedures, preliminary independence checks and consistency and casting checks of the Statement of Accounts.

#### **Benefits for the audit**

The key benefits of our approach for your audit have been the use of data analytics in testing your journal transactions, which has identified a range of useful other information as part of the process, and the use of our delivery centres which have reviewed in detail your compliance with the 2012/13 Code of Practice.

### **Smart Technology**

We have designed processes that automate and simplify audit activity wherever possible. Central to this is PwC's Aura software, which has set the standard for audit technology. It is a powerful tool, enabling us to direct and oversee audit activities. Aura's risk-based approach and workflow technology results in a higher quality, more effective audit and the tailored testing libraries allow us to build standard work programmes for key local government audit cycles.

*The following pages highlight the risks we originally identified in our Audit Plan, and explain what we have done in response.*

*The risks on this page, Management Override of Controls and the Recognition of Income and Expenditure, are presumed to be significant risks under International Standards on Auditing.*

We have summarised below the risks we identified in our audit plan and the audit approach we took to address them.

Risk	Category	Audit approach
<p><b>Fraud and Management Override of Controls</b></p> <p>ISA (UK&amp;I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk that management may override controls in order to manipulate the financial statements.</p>	<p>Significant Risk</p>	<p>We focussed our work on the testing of journals and utilised data auditing audit techniques to do this. We also:</p> <ul style="list-style-type: none"> <li>• reviewed accounting estimates for biases and evaluate whether circumstances producing any bias, represent a risk of material misstatement due to fraud;</li> <li>• evaluated the business rationale underlying significant transactions; and</li> <li>• performed ‘unpredictable’ procedures – these are tests we have not carried out before to test the robustness of controls.</li> </ul> <p>More details on the results of our audit procedures are included later in this report.</p>
<p><b>Recognition of income and expenditure</b></p> <p>Under ISA (UK&amp;I) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition.</p> <p>There is a risk that the Council could adopt accounting policies or treat income and expenditure transactions in such as way as to lead to material misstatement in the reported revenue and expenditure position.</p>	<p>Significant Risk</p>	<p>We updated our understanding of your revenue and expenditure controls, and evaluated your accounting policy for income and expenditure recognition. This is consistent with the requirements of the code of accounting for Local Government.</p> <p>We also performed detailed testing of revenue and expenditure transactions in your Statement of Accounts. More details on the results of our audit procedures are included later in this report.</p>

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

*You have been establishing the East Midlands Shared Service over the past three years. The 'go-live' date was at the start of the 2013/14 financial year. As a result, this did not have a large impact on our work on the 2012/13 accounts as we envisaged at the time of our audit plan. However, we continued to closely monitor your preparations.*

Risk	Category	Audit approach
<p><b>Valuation of properties</b></p> <p>Property, Plant and Equipment is the largest figure on your balance sheet. The economic conditions continue to be uncertain, which has a potential impact upon the valuation of your property, plant and equipment.</p> <p><i>Specific areas of audit risk include:</i></p> <ul style="list-style-type: none"> <li>• The accuracy and completeness of detailed information on assets.</li> <li>• Whether the assumptions underlying the classification of properties are appropriate.</li> <li>• The valuer's methodology, assumptions and underlying data, and our access to these.</li> </ul>	Other Risk	<p>For assets which were valued during the year, we:</p> <ul style="list-style-type: none"> <li>• agreed the source data used by your Valuer to supporting records;</li> <li>• assessed the work of your Valuer through use of our own internal specialists; and</li> <li>• agreed the outputs to your Fixed Asset Register and accounts.</li> </ul> <p>Where assets were not re-valued in year, we reviewed your impairment assessment, and evaluated whether your assets are held at an appropriate value in your accounts at the year-end.</p> <p>More details on the results of our audit procedures are included later in this report.</p>
<p><b>East Midlands Shared Services</b></p> <p>On 7 September 2010, the Cabinet considered proposals for a new East Midlands Shared Service centre with Nottingham City Council. This project involves shared services for HR, payroll and financial transaction services, utilising the Oracle ERP system currently used by the Council.</p> <p>The preparation for 'go live' continues, with the project due for implementation during the current 2012/13 financial year.</p>	Other Risk	<p>We have kept up to date with your progress in implementing the East Midlands Shared Services (EMSS) project through discussions with management and review of relevant working papers. The 'go-live' date was at the start of the 2013/14 financial year. As a result, we continued to discuss your progress with management and have considered the work of Internal Audit in looking at the implementation of EMSS.</p> <p>We have also engaged with our Risk Assurance team, and have agreed to use our Oracle 'GATE' tool to provide added value and insight to the configuration of your Oracle system during the 2013/14 financial year, when the EMSS arrangement has been fully embedded.</p>

### Local Government Pension Scheme

One of the most material estimates in the accounts is your share of the Leicestershire Pension Fund net liability.

The trend over the past five years has been an increase in the net liability. There has been a significant increase in the pension fund net liability, as estimated by the actuary, due to changing demographics and other assumptions. The fair value of the scheme assets has remained broadly flat.

The actuarial assumptions are primarily driven by the results of the triennial funding review of the Pension Scheme as at March 2010. This information is updated for using a “roll forward” approach (where previous balances are adjusted to account for known trends) until the next full valuation which will impact the 2013/14 accounts.



### Other Risk

We have reviewed the assumptions you have used in your accounts to measure the pension fund liability, with assistance from our internal experts in Pension Funds.

We have also:

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

We have tested the value of the pension fund assets which you recognise in your accounts. More details on the results of our audit procedures are included later in this report.

### Medium Term Financial Strategy

The Authority has made significant strides over the past few years to identify savings and deliver more efficient services. The 2012 MTFS is based upon a reduction in formula grant over the four year period 2012/13 to 2015/16. It includes savings of £74m, of which £49m are to be achieved through efficiencies. Growth of £27m has been included for service improvement, cost and demand pressures. There is a well established Change Management Programme and Organisational Efficiency Programme which has helped deliver demonstrable value for money.

You have historically been at or near the top of the 'PwC Benchmarking Club' for delivering value for money in terms of performance against net spend. However, the scale of the challenge over the next few years is significant and much of the good practice you have demonstrated will need to continue and be intensified if your planned savings and service reductions are to be delivered.

During 2011/12 and 2012/13 you have continued to deliver savings. The delivery of your savings plan has given you flexibility to direct resources towards 'invest to save' schemes. However, the environment continues to be challenging. You will need to ensure that a robust Medium Term Financial Strategy is approved before March 2013 so that you can demonstrate how you will be financially resilient in the years ahead.



### Other Risk

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

In particular, we have reviewed:

- the governance structure in place to deliver your plans ;
- how you have managed your 2012/13 savings programme;
- the key assumptions included in the MTFS, comparing them with best practice and those used by other Local Authorities.
- The sensitivity of key assumptions to change;
- the impact of potential changes to key assumptions and the rigour behind the MTFS;
- the prioritisation of resources as part of the MTFS; and
- your arrangements to review the value for money which your services provide; and
- the adequacy of your planned level of reserves and contingencies against your stated policy and the level of future risk in delivering the MTFS.

The detailed findings from our work were presented separately to the Corporate Governance Committee at its meeting in June 2013.

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



*This section of the report summarises the significant audit and accounting matters we have identified in our work.*

*You prepared your accounts to a high standard and the working papers were ready for audit on a timely basis. You have been responsive in answering our queries.*

*We anticipate issuing an unqualified audit opinion.*

## **Significant audit and accounting matters**

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

### **Accounts**

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

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

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

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

### **Accounts Preparation**

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

We agreed in advance what we would need for our audit and this was ready for us when we arrived and in some cases in advance. The working papers were provided to us electronically and you have made improvements in the availability of finance staff to help us with our queries. The finance team worked hard to meet the timescales and were helpful in resolving our queries.

Overall the Council's accounting performance is to be commended and we would like to thank the team (and others) for their support and assistance during the audit.

*There are no material accounting issues to draw to your attention. However, we have highlighted on the next few pages some of the key issues we have identified in our audit for you to consider.*

*You entered into the Local Authority Mortgage Scheme (LAMS) in the past 18 months. This scheme involves Local Authorities passing money to banks to assist with the availability of mortgages in the local area.*

*There are differing views nationally on how to account for the LAMS transactions. You have accounted for these as capital transactions in line with advice you have received. We believe that these transactions are revenue in nature. Given the immaterial nature of the amounts involved, the Authority is not minded to change its current accounting treatment.*

*We have also reviewed the valuation of your property, plant and equipment. This involved reviewing supporting information and consultation with our own valuation experts. We identified no issues to report here.*

## **Accounting issues**

We identified no material accounting issues. We would however like to draw to your attention the following matters resulting from our work to assist you in fulfilling your governance responsibilities.

### **Local Authority Mortgage Scheme (LAMS)**

In July 2012 the Authority approved its participation in the Local Authority Mortgage Scheme (LAMS). The aim of this scheme is for Local Authorities to lend to banks in a manner which allows them to make more affordable mortgages available to people who do not currently have the resources to put a significant deposit into a house purchase.

The Authority has approved a total indemnity value of £10 million to enable Lloyds TSB to provide affordable mortgages, through its Local Lend a Hand scheme. This is drawn down in tranches, with the first £3.4 million transferred during 2012. The second £2 million was transferred in early 2013 and in total £5.4 million has been advanced during 2012/13. The money being transferred is sourced from the Authority's revenue reserves.

The accounts treat the expenditure incurred to date as capital expenditure. The definition in the relevant regulations of capital expenditure is that 'the giving of a loan, grant or other financial assistance to any person, whether for use by that person or by a third party, towards expenditure which would, if incurred by the authority be capital expenditure'. This is the basis on which the Authority treated this money as capital expenditure, and is consistent with the advice it has received from Sector.

However, upon review of the arrangements, we believe that these transactions do not meet the definition of capital expenditure. Although the lender may not have made its loan to the borrower without the authority having placed money on deposit, the status of the deposit is such that the lender cannot treat the amount deposited as its own monies.

The authority thus has no direct relationship with the borrower making the house purchase and is not linked to a capital purpose. In essence, the authority has deposited money into a bank account as a Long Term Investment. This ordinarily does not constitute as 'capital expenditure'. This view was shared by the Audit Commission last year in its advice to its own auditors in their Local Government Technical Directory.

The Council has taken professional advice on its accounting treatment. The Audit Commission is aware of differing professional views and is currently seeking legal advice which is awaited. The Council has therefore decided to await the outcome of this advice before changing its draft accounts. The nature of the amounts involved is immaterial. If the Authority is not minded to amend the accounts, this would not impact upon our audit opinion.

## **Valuations**

Your draft accounts include property, plant and equipment with a net book value of £769.7 million, largely made up of land and buildings (£471.8 million) and infrastructure assets (£272.1 million). The total value of your land and buildings has reduced significantly from £656.3 million in the prior year to £471.8 million this year. This is primarily due to the conversion of a large number of schools to Academy status, at which time the school buildings transfer to the Academy school itself on a finance lease.

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

*Your Pension Fund assets and liabilities are one of the most significant items in your Statement of Accounts. The net pension liability was £498 million as at 31 March 2013, an increase of 14% from the prior year.*

*We used the work of our own experts to assess the assumptions made by your actuary. We found the assumptions you have used to be reasonable.*

We engaged an internal PwC valuation specialist to review the work of your internal valuation team. We considered the applicable professional requirements and industry standard indices used to revalue specialised assets, and the steps taken by the Council to account for the full impact of these indices across all of its specialised assets. We found no concerns to report.

**Pensions liability**

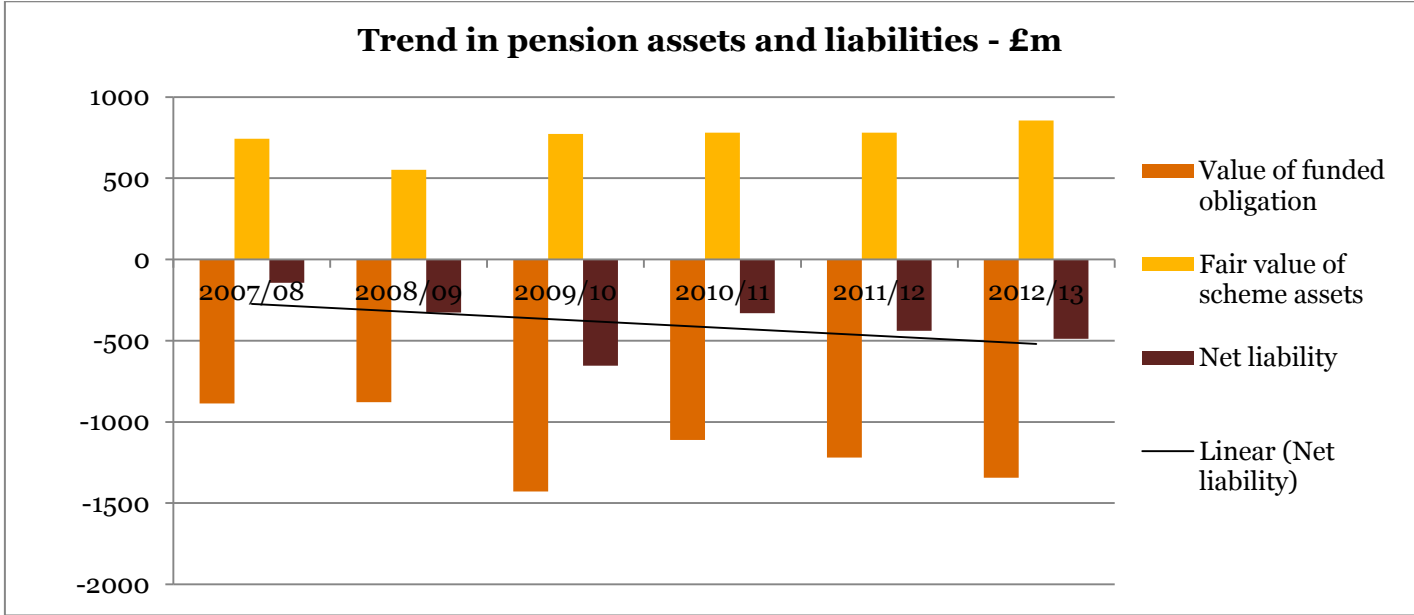
One of the most significant estimates in the Statement of Accounts is in the valuation of net pension liabilities for employees in the Leicestershire pension fund. Your net pension liability at 31 March 2013 was £498 million (£439 million as at 31 March 2012).

The 2013 triennial valuation is yet to be concluded and will be reflected in the 2013/14 Statement of Accounts. The deficit for the Local Government Pension Scheme as a whole is expected to have increased from £38bn to £80bn since 2010.

Although the trend has been for assets to gradually increased in value over this period, the value of the liabilities has increased by more than 40% as these are linked to gilt yields which are at an all time high.

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

Council Pension Liability between 2007/08 and 2012/13



*There are some changes to the accounting standard for Employee Benefits (IAS 19) for 2013/14.*

*Your actuary has estimated that if those changes applied in 2012/13, your expenditure would have increased by £4.7 million.*

The Pension Fund gives membership details to the Actuary to calculate the figures for the accounts. We check that the census information used by the Actuary agree to the Council's records and found that they were consistent. We have also reviewed the reasonableness of the assumptions underlying the pension liability, and we are comfortable that the assumptions are within an acceptable range.

### *Changes to IAS 19: Employee Benefits*

From 2013/14 there will be changes to the accounting for defined benefit schemes and termination benefits. For defined benefit schemes the net finance cost will be used. The net scheme liabilities/assets will be unwound using the discount rate for the pension liability and the costs of administering the scheme will be recognised directly in expenses.

The definition of termination benefits has changed and does not now include liabilities where there is a future service element. They do not include any 'voluntary' element.

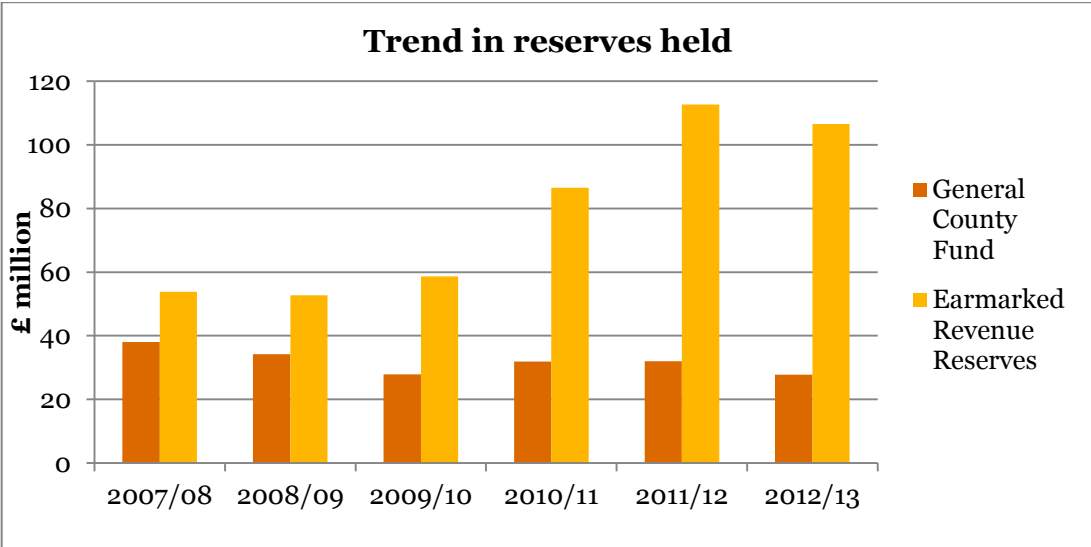
The 2012/13 accounts include disclosure of standards issued but not adopted and estimates of their likely financial effect. As a result, estimates of the impact of IAS 19 (Revised) have been obtained from the actuary. The impact on the Authority in 2012/13 would have been to increase expenditure charged to the Statement of Comprehensive Income and Expenditure by £4.7 million.

### *Reserves*

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

*The level of your reserves continues to be strong. This includes your General County Fund, which you hold to manage future risk, and your Earmarked Reserves, which are held for specific future purposes.*

*We are required to tell you about all misstatements we have identified which management has chosen not to amend the accounts for. A summary of these is included in Appendix 1.*



Of the reserves held at the end of 2012/13, £8.4 million of the General County Fund relates to delegated funding for schools, a significant decrease of £9.7 million from 2011/12 which reflects schools transferring to Academy status. Significant earmarked reserves include £11.6 million for invest to save/severance projects, £11.4 million for insurance purposes and £10.4 million for Health & Social Care outcomes.

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

From an audit perspective, we are satisfied that reserves have been accounted for correctly. We would comment that, with further cuts to Local Government budgets in 2015/16 recently announced, you continue to face higher levels of risk

in the short and medium term. This will impact your assessment of reserves requirements.

### *Audit adjustments*

The International Standards on Auditing (ISAs) require us to tell you about all unadjusted items we found during the audit, other than those which are trivial. Please see Appendix 1 for more details. We ask for your representation that you are comfortable for the accounts to not be adjusted for these items.

### *Significant accounting principles and policies*

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

*As part of preparing the accounting, management make a number of judgements and accounting estimates.*

*During our audit we review and challenge management on these judgements. We consider whether they are reasonable in light of the information available.*

*We found that management has made materially appropriate judgements in preparing the Statement of Accounts.*

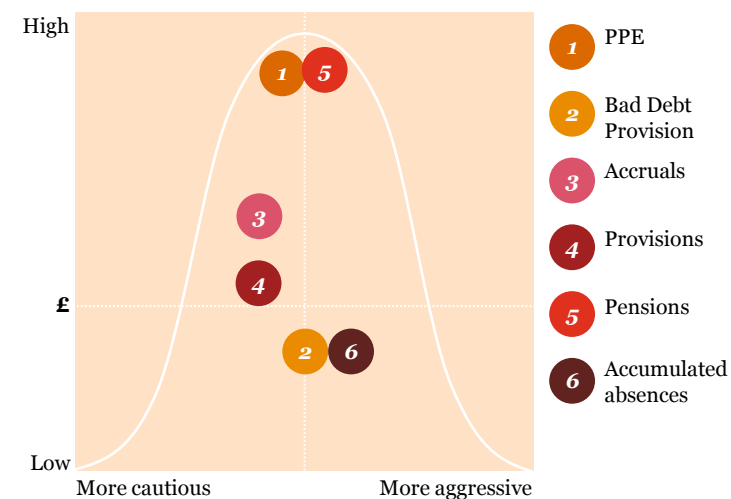
## Judgments and accounting estimates

The following significant judgments and accounting estimates were used in the preparation of the financial statements:

- i. **Property, Plant and Equipment - Depreciation and Valuation** - You charge depreciation based on an estimate of the Useful Economic Lives for the majority of your Property, Plant and Equipment (PPE). This involves a degree of estimation. You also value your PPE in accordance with your accounting policies to ensure that the carrying value is true and fair. This involves some judgement and reliance on your internal valuers.
- ii. **Bad Debt Provision** – Your Bad Debt Provision for sundry debtors is calculated on the basis of age and an assessment of the potential recoverability of invoices. There is an inherent level of judgement involved in calculating these provisions and you rely on the knowledge of the Departments for information on specific transactions.
- iii. **Accruals** - You raise accruals for expenditure where an invoice has not been raised or received at the year end, but you know there is a liability to be met which relates to the current year. This involves a degree of estimation.
- iv. **Provisions:** Provisions at 31 March 2013 total £13.1 million (£13.3 million as at 31 March 2012). Because provisions are liabilities of an uncertain timing or amount, there is an inherent level of judgement to be applied.

- v. **Pensions:** See our comments above. You rely on the work of an actuary in calculating these balances.
- vi. **Provision for accumulated absences** - You calculate your accrual for untaken holiday and employment benefits at the year-end based on returns completed by managers. You apply an average calculation based on these returns when you have had no response. This was a new requirement under IFRS and your 31<sup>st</sup> March 2013 balance is approximately £6 million.

Overall we found your significant judgements and accounting estimates to be reasonable. We outline below a summary of our view of the key accounting judgments applied by management:





*We ask management to send us a letter of representation before we sign our audit opinion. A draft of that letter is included in Appendix 2.*

*We are required to demonstrate our independence by professional standards. Maintaining our independence is important to us in delivering you a robust external audit.*

*We have considered a range of factors to demonstrate our independence as auditors, including the provision of non-audit work.*

## **Management representations**

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

## **Audit independence**

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

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

For the purposes of this letter we have made enquiries of all PricewaterhouseCoopers’ teams whose work we intend to use when forming our opinion on the truth and fairness of the Statement of Accounts.

### **Relationships between PwC and the Authority**

We are aware of the following relationships that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity and which represent matters that have occurred during the financial year on which we are to report or up to the date of this document.

### **Relationships and Investments**

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

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

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

### **Business relationships**

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

### **Services provided to the Authority**

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

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

- Review of the upgrade of Oracle (£20,000) – we were successful in a competitive tender to support the Authority in reviewing the upgrade of your Oracle system.
- VAT Helpline (£3,000) – we provide a VAT service to the Council giving unlimited access to a telephone helpline for routine VAT queries.
- VAT claim (estimated £14,000) – you have requested administrative assistance with a VAT claim you are progressing.
- East Midlands Councils (fees unknown at this stage) – we have been asked to undertake an audit of the East Midlands Councils 2012/13 accounts.

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

*We have concluded that we are independent and comply with the relevant UK regulatory and professional requirements.*

*You are required to produce an Annual Governance Statement (AGS). We reviewed your AGS and found no areas of concern to report.*

*Our value for money responsibilities require us to conclude on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. We considered a number of factors, in particular your process for preparing a Medium Term Financial Strategy, your financial results and other performance measures.*

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

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

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

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

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

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

In relation to the non-audit services provided, none included contingent fee arrangements. We are satisfied in all cases that the non-audit work does not compromise our independence as your external auditor.

#### *Fees*

The analysis of our audit fees for the year ended 31 March 2013 is included later in this report.

#### *Services to Directors and Senior Management*

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

#### *Rotation*

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

#### *Gifts and hospitality*

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

#### *Conclusion*

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

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

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

#### *Annual Governance Statement*

Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: "Delivering Good



*As part of our value for money work we reviewed your Medium Term Financial Strategy. Our detailed findings were reported to you at the meeting in June 2013. We have summarised our findings on this page*

Governance in Local Government”. The AGS was included in the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE “Delivering Good Governance in Local Government” framework and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

### *Economy, efficiency and effectiveness*

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

The Audit Commission guidance includes two criteria:

- The organisation has proper arrangements in place for securing financial resilience; and
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

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

### *Medium Term Financial Strategy*

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

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

- You have demonstrated in the past that you have robust programme management arrangements in place and that you achieve the savings targets which you have set yourself. However, the scale of the challenge for 2013/14 and beyond continues to be significant. This is something you recognise;
- You have applied a number of prudent assumptions in setting your MTFS. In a number of cases these were more prudent than in our benchmark average. However, we believe these are realistic assumptions which will help you to meet manage the financial risks which exist over the plan period;
- The Audit Commission value for money profile, whilst backwards looking, continues to show a number of key areas where the Authority is providing services which can demonstrate value for money when compared with other County Councils;
- You need to focus on how you are going to continue to demonstrate the delivery of value for money services going forward given that a number of national indicators have been withdrawn; and
- You have set aside a significant level of earmarked reserves and a level of contingency to manage future cost pressures. Whilst these are larger than in other similar Local Authorities, we believe that you have taken a prudent approach in setting your MTFS.

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

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

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

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

*We identified no significant deficiencies in internal control to report to you.*

---

## ***Internal controls***

### ***Accounting systems and systems of internal control***

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

### ***Reporting requirements***

We have to report to you any significant deficiencies in internal control that we found during the audit which we believe should be brought to your attention.

We identified no significant deficiencies as part of our audit work. Where other deficiencies in internal controls were identified, we have reported these to management for action to be taken.

*We ask that the Corporate Governance Committee, as those charged with governance, confirm to us that there are no additional matters relating to fraud that should be brought to our attention.*

*As part of work to address the risk of fraud, we use data auditing techniques to select journal entries which we believe have a greater risk of containing fraud or error.*

*We identified no issues to report to you as part of this work.*

---

## ***Risk of fraud***

We discussed with you your understanding of the risk of fraud and corruption and any reported instances when presenting our plan. We also updated you on the work we have done in response to the risk of material fraud in the Statement of Accounts in the ‘Audit Approach’ section of our report above.

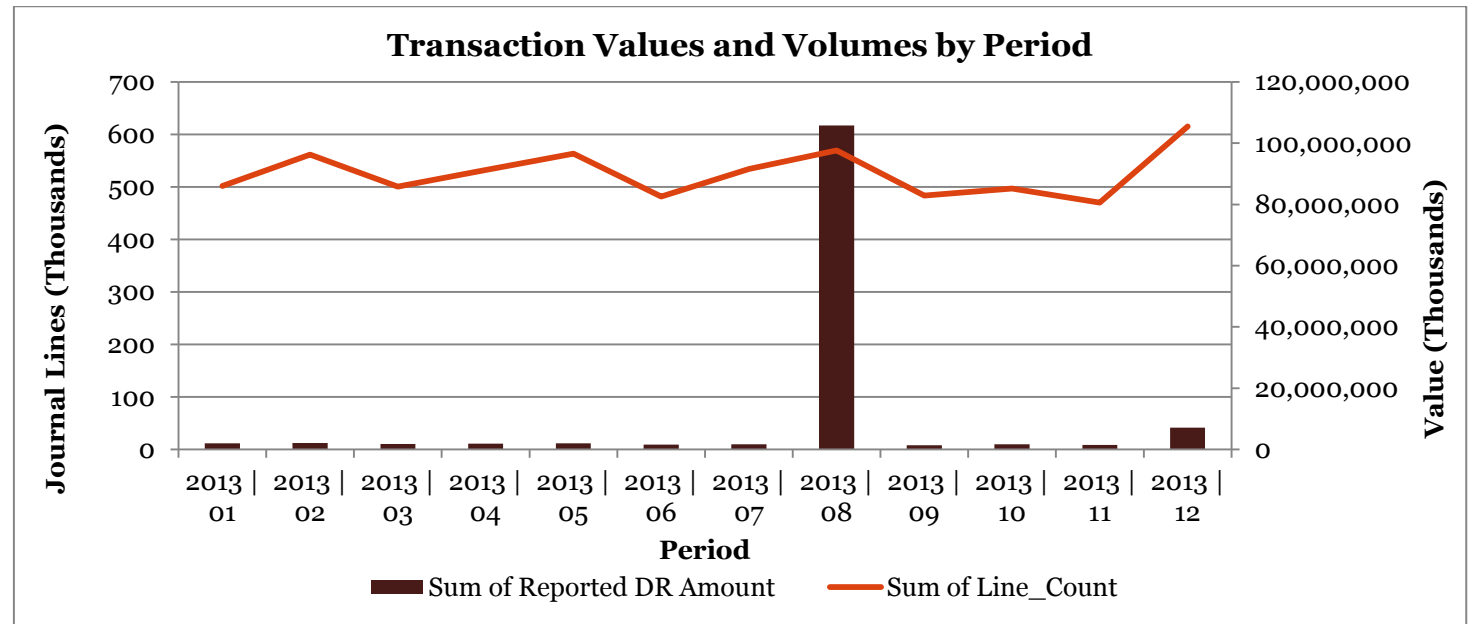
In presenting this report to you we ask for your confirmation that there have been no changes to your view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation.

### ***Journals***

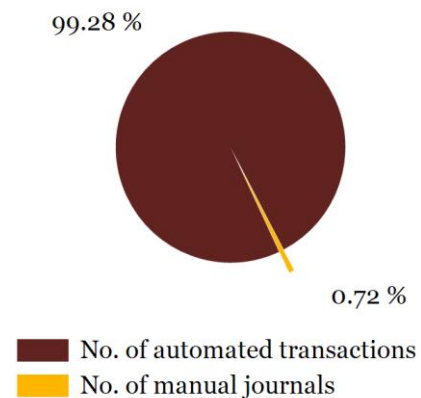
Journals are transactions put through your accounts system which can be of any value and affect any account. Your main processing systems, including purchasing and payroll, produce automatic journals covering the bulk of transactions, but these cannot cover all the various accounting requirements, particularly capital accounting and year end estimates. Your staff have to prepare and enter manual journals for these.

Journals are inherently risky because of their ability to affect any account, and we address this risk in your organisation by using a computer program to interrogate the journals in the ledger system. This helped us direct our detailed audit checks on specific journals which appeared more unusual and therefore riskier.

We are pleased to report that our work on journals identified no significant concerns or issues. Our work did however identify some interesting statistics which we include below for your information.

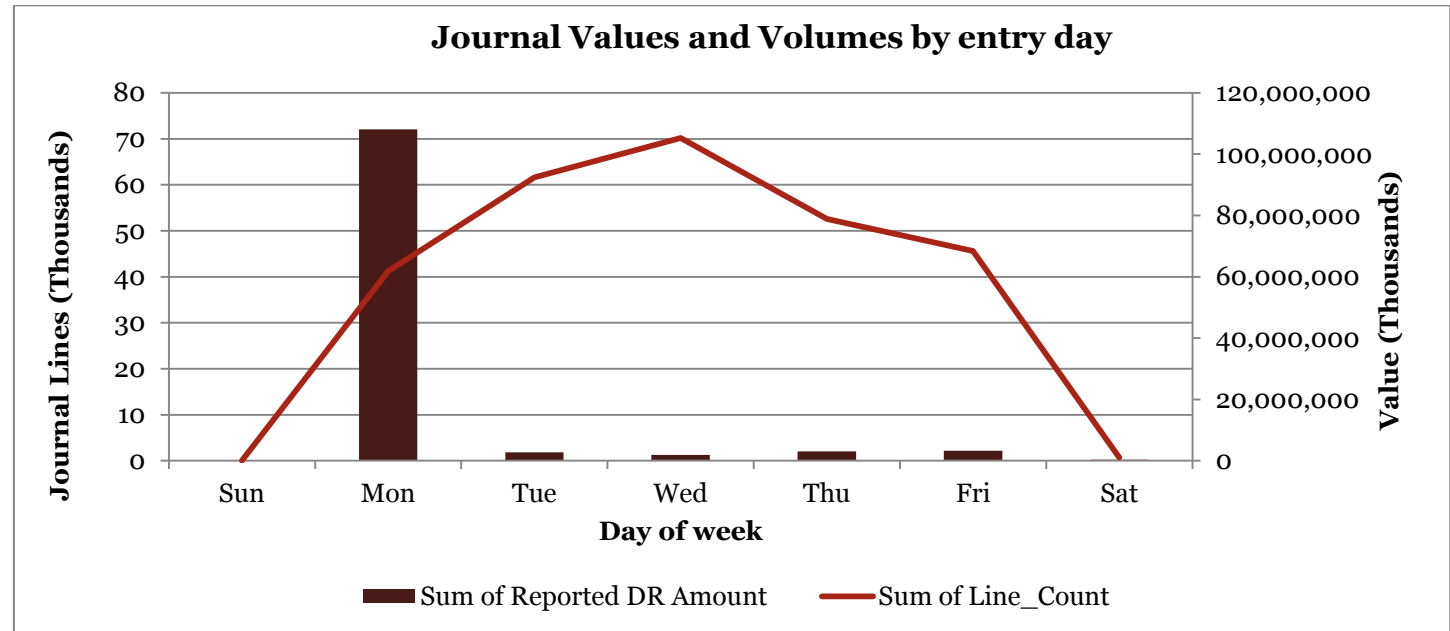


Over 271,000 journals were posted manually in the year including the close down period to the value of over £15 billion (excluding a one off set of transactions in period 8, which are shown by the graph above and were processed to net down balances held gross on the Balance Sheet). The number of your journals which are raised manually is relatively small as a percentage of the total when compared to other similar Councils:



Journals posted out of hours or at weekends, when there is less obvious supervision, present a higher risk of management override of controls. A total of 39 journals (83 in 2011/12) were posted at the weekend. We targeted our testing to look at material journals posted at unusual times and dates.

A summary of this information is presented below. The significant peak in the value of transactions on a Monday is due to a single significant transaction which was processed in Month 8 on a Monday. The peak in the volume of transactions is on Wednesday, which is consistent with prior periods:



We did not identify any significant issues from this work. We have shared the detail above with management to consider further.

Our audit fees are in line with our original proposal.

## ***Fees update***

### *Fees update for 2012/13*

We reported our fee proposals in our plan.

Our forecast outturn is in line with our original proposals.

	2012/13 outturn	2012/13 fee proposal
<b>Statement of Accounts (including whole of government accounts)</b>	100,000	100,000
<b>Value for Money Conclusion</b>	12,600	12,600
<b>TOTAL</b>	<b>112,600</b>	<b>112,600</b>

Our fee for certification of grants and claims is yet to be finalised for 2012/13 and will be reported to those charged with governance within the Grants Report to Management which we issue later in the year.

Details of non-audit work we have undertaken is included earlier in this report.

---

# *Appendices*



We are required to report to you all uncorrected misstatements we have identified.

If the accounts remain unadjusted for these items, we will need a written representation explaining why.

A proposed letter of representation is included in Appendix 2 to this report.

# Appendix 1: Summary of uncorrected misstatements

We found the following matters during the audit that have not been adjusted by management. You are requested to consider these formally and determine whether you would wish the accounts to be amended. If the misstatements are not adjusted we will need a written representation from you explaining your reasons for not making the adjustments.

No	Description of misstatement (factual, judgemental, projected)	Income statement (£m)		Balance sheet (£m)	
		Dr	Cr	Dr	Cr
1	<b>Local Authority Mortgage Scheme (LAMS)</b> The transactions made under the scheme to date have been accounted for as capital transactions rather than as revenue transactions. In addition, the money passed to the bank to date has been classified as a Long Term Debtor rather than a Long Term Investment. For more detail please refer to the 'Significant audit and accounting matters' section of the main report.	J		Long Term Investment 5.4  Capital Adjustment Account 5.4  Movement in Reserves Statement 5.4	Long Term Debtor 5.4  Movement in Reserves Statement 5.4  Earmarked Reserves 5.4
Total uncorrected misstatements				5.4	5.4

In addition, as part of our sampling of individual transactions we found a small error of £3,000. This occurred where you had under-accrued for an invoice. Although this is below the agreed reporting level, when we extrapolated this amount there was an additional projected error of £239,000. Due to the immaterial nature of this item you have decided not to adjust the accounts.

*There are a number of matters on which we are required to ask for a written representation.*

*A draft letter of representation is included in this appendix.*

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

[Insert LCC letterhead]

PricewaterhouseCoopers LLP  
Cornwall Court  
19 Cornwall Street  
Birmingham  
B3 2DT

Dear Sirs,

### **Representation letter – audit of Leicestershire County Council’s (the Authority) Statement of Accounts for the year ended 31 March 2013**

Your audit is conducted for the purpose of expressing an opinion as to whether the Statement of Accounts of the Authority give a true and fair view of the affairs of the Authority as at 31 March 2013 and of its surplus/deficit and cash flows for the year then ended and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 supported by the Service Reporting Code of Practice 2012/13.

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

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

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

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

I have fulfilled my responsibilities for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 supported by the Service Reporting Code of Practice 2012/13; in particular the Statement of Accounts give a true and fair view in accordance therewith.

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

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

All events subsequent to the date of the Statement of Accounts for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 requires adjustment or disclosure have been adjusted or disclosed.

The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the Statement of Accounts as a whole. A list of the uncorrected misstatements is attached below:

Description of misstatement (factual, judgemental, projected)	Income statement (£m)		Balance sheet (£m)	
	Dr	Cr	Dr	Cr
<b>Local Authority Mortgage Scheme (LAMS)</b> The transactions made under the scheme to date have been accounted for as capital transactions rather than as revenue transactions. In addition, the money passed to the bank to date has been classified as a Long Term Debtor rather than a Long Term Investment.		J	Long Term Investment 5.4	Long Term Debtor 5.4
			Capital Adjustment Account 5.4	Movement in Reserves Statement 5.4
			Movement in Reserves Statement 5.4	Earmarked Reserves 5.4
<b>Total uncorrected misstatements</b>			<b>5.4</b>	<b>5.4</b>

In addition, as part of the auditors' sampling of individual transactions a small error of £3,000 was identified. When this was extrapolated an additional projected error of £239,000 was identified. Due to the immaterial nature of this item we have decided not to adjust the accounts.

The Statement of Accounts disclose all matters of which we are aware that are relevant to the Authority's ability to continue as a going concern, including all significant conditions and events, mitigating factors and the Authority's plans.

### ***Information Provided***

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

I have provided you with:

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

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

### ***Accounting policies***

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

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

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

I have disclosed to you:

- the results of our assessment of the risk that the Statement of Accounts may be materially misstated as a result of fraud.
- all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and involves:
  - management;
  - members;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the Statement of Accounts.
- all information in relation to allegations of fraud, or suspected fraud, affecting the Authority's Statement of Accounts communicated by employees, former employees, analysts, regulators or others.
- all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing Statement of Accounts.

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

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

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

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

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

I confirm that we have disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which we are aware.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

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

### ***Employee Benefits***

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

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

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

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

I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the statement of accounts and such matters have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

### ***Taxation***

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

In particular:

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

### ***Retirement benefits***

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

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

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

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

### ***Using the work of experts***

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

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

All known assets and liabilities including contingent liabilities, as at the 31 March 2013, have been taken into account or referred to in the Statement of Accounts.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the 31 March 2013 have been properly valued and that valuation incorporated into the Statement of Accounts.

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

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

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

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

### ***Bank accounts***

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

### ***Litigation***

I am not aware of any pending or threatened litigation, proceedings, hearings or claims negotiations which may result in significant loss to the Authority.

***Transactions with members/officers***

No transactions involving members, officers and others requiring disclosure in the Statement of Accounts under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 have been entered into.

***Subsequent events***

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

As minuted by the Corporate Governance Committee at its meeting on 23 September 2013.

.....

Director of Corporate Resources

For and on behalf of Leicestershire County Council

Date .....





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

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

© 2013 PricewaterhouseCoopers LLP. All rights reserved. In this document, "PwC" refers to the UK member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see [www.pwc.com/structure](http://www.pwc.com/structure) for further details.

130610-142627-JA-UK