

# *Leicestershire County Council*

*Annual Audit Letter*

2013/14

Government and  
Public Sector

October 2014

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## **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.*

An audit 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.

# Introduction

## The purpose of this letter

This letter summarises the results of our 2013/14 audit work for members of the Authority.

We have already reported the detailed findings from our audit work to the Corporate Governance Committee in the following reports:

- Annual Audit Plan;
- Audit opinion for the 2013/14 financial statements, incorporating opinion on the proper arrangements to secure economy, efficiency and effectiveness in its use of resources;
- Report to those charged with Governance (ISA (UK&I) 260);
- Annual Certification Report (to those charged with governance); and
- Medium Term Financial Strategy Report.

The matters reported here are the most significant for the Authority

## Scope of Work

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As an administering Authority of a pension fund, the Authority is also responsible for preparing and publishing Accounting Statements for the Leicestershire Pension Fund.

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan that we issued in November 2013 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

We met our responsibilities as follows:

Audit Responsibility	Results
Perform an audit of the accounts[and pension fund accounting statements] in accordance with the Auditing Practice Board's International Standards on Auditing (ISAs (UK&I)).	<p>We reported our findings to the Corporate Governance Committee on 23 September 2014 in our 2013/14 Report to those charged with governance (ISA (UK&amp;I) 260).</p> <p>On 29 September 2014 we issued an unqualified audit opinion.</p>
Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	<p>We reported our findings to the National Audit Office on 29 September 2014.</p> <p>We identified no significant issues as part of this work.</p>

Audit Responsibility	Results
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 29 September 2014 we issued an unqualified value for money conclusion.
Consider the completeness of disclosures in the Authority's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.	There were no issues to report in this regard.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	There were no issues to report in this regard.
Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.	There were no issues to report in this regard.

Audit Responsibility	Results
Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.	<p>We have not been able to issue our audit certificate because the Leicestershire Pension Fund Annual Report is not required to be completed until December 2014.</p> <p>When this is done we will be in a position to issue our completion certificate.</p>
Issue an opinion on the pension fund annual report (where required)	The Leicestershire Pension Fund Annual Report is not required to be completed until December 2014.

# Audit Findings

## Accounts

We audited the Authority's accounts in line with approved Auditing Standards and **issued an unqualified audit opinion on 29 September 2014.**

We identified the following:

### Valuation of Property, Plant and Equipment

The final accounts include property, plant and equipment with a net book value of £794 million, largely made up of land and buildings (£465.2 million) and infrastructure assets (£302.6 million). The total value of land and buildings has increased slightly from £769.7 million in the prior year to £794 million. This is primarily due to new capital additions and upwards re-valuations of existing assets, offset by the conversion of a number of schools to Academy status.

The Authority has to keep the values of land and buildings up to date. The Authority'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. The top 20 assets are re-valued every year, plus a fifth of other assets every year and on completion of a capital scheme above £100,000. The work is completed internally to the Authority.

We engaged an internal PwC valuation specialist to review the work of the Authority's internal valuation team. We considered the applicable professional requirements and industry standard indices used to revalue specialised assets, and the steps taken by the Authority to account for the full impact of these indices across all of its specialised assets. **There were no areas of concern to report in this context.**

Leicestershire County Council

## Pension liability

The most significant estimate in the Statement of Accounts is in the valuation of net pension liabilities for employees in the Leicestershire pension fund. The net pension liability at 31 March 2014 was £603.3 million (2013 - £497.6 million).

We utilised the work of PwC actuarial experts to assess the assumptions applied by the Authority. We also validated the data supplied to the actuary on which to base their calculations.

We utilised the work of the PwC Pensions Team over the Leicestershire Pension Fund to gain assurance over the valuation of pension fund assets. The work undertaken included obtaining confirmation letters directly from the managers of relevant investment funds.

**There were no areas of concern to report in this context.**

### Judgments and accounting estimates

The Authority is required to prepare its financial statements in accordance with the CIPFA Code. Nevertheless, there are still many areas where management need to apply judgement to the recognition and measurement of items in the financial statements.

As reported, within our Report to those charged with Governance (ISA (UK&I) 260), **overall we found the significant judgements and accounting estimates to be reasonable.**

### *Misstatements and significant audit adjustments*

Our work only identified one uncorrected misstatement above the agreed reporting level of £100,000.

There were no corrected misstatements that we felt significant to report within our Report to those charged with Governance (ISA (UK&I) 260).

### *Use of Resources*

We carried out sufficient, relevant work in line with the Audit Commission's guidance, so that we could conclude on whether the Authority had in place, for 2013/14, proper arrangements to secure economy, efficiency and effectiveness in the use of the Authority's resources.

In line with Audit Commission requirements, our conclusion was based on 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.

To reach our conclusion, we carried out a programme of work that was based on our risk assessment.

We issued an unqualified conclusion on the ability of the organisation to secure proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### *Medium Term Financial Strategy*

Our audit plan highlighted specific value for money risk in relation to the Authority's savings requirement and financial plans over the next few years. We agreed in the audit plan that we would review the Medium Term Financial Strategy (MTFS), comparing it to benchmark information and the plans of other Councils. We also reviewed the governance arrangements which are in place.

In summary:

- The Authority has demonstrated in the past that it has robust programme management arrangements in place, and that agreed savings targets are achieved. However, the scale of the challenge in the medium term, particularly during 2015/16, is more significant than faced to date. This is recognised through the establishment of the Transformation Board and the additional resources which have been put in place;
- Prudent assumptions were applied in setting the MTFS. In some cases these were more prudent than in our benchmark average. However, we believe these are realistic assumptions which will help the Authority 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; and
- A significant level of earmarked reserves has been set aside, alongside a level of contingency to manage future cost pressures. Whilst these are larger than in other similar Local Authorities, we believe that the Authority has taken a prudent approach. These reserves will be required to effectively deliver the transformation and savings required.

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

- **Slippage:** the Authority may not be able to identify or achieve savings from service reductions or efficiencies.
- **Timing:** The timing of savings, service reductions and funding announcements will impact how plans are delivered.

- **Assumptions:** We have assessed the assumptions applied in the MTFS. If these assumptions turn out to be false, this would have a significant impact on the ability of the Authority to deliver a balanced budget over 4 years.
- **Policy:** Current and future changes in government policy have the potential to fundamentally alter the framework within which the MTFS has been developed. Examples may include further integration of Health and Social Care, the impact of the Care Bill and future Comprehensive Spending Reviews.

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

### *Annual Governance Statement*

Local authorities are required to produce an Annual Governance Statement (AGS) that is consistent with guidance issued by CIPFA/SOLACE. The AGS accompanies the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA/SOLACE guidance and whether it might be misleading or inconsistent with other information known to us from our audit work. **We found no areas of concern to report in this context.**

### *Whole of Government Accounts*

We undertook our work on the Whole of Government Accounts consolidation pack as prescribed by the Audit Commission. The audited pack was submitted on 29 September 2014. **We found no areas of concern to report in this context.**

### *Electors' questions and objections*

We did not receive any electors' questions or objections regarding the 2013/14 financial statements.

### *Certification of Claims and Returns*

We presented our most recent Annual Certification Report for 2012/13 to those charged with governance in February 2014. We certified one claim and one return worth £29.7 million. **Both were amended following the certification work undertaken and one claim also required a qualification letter to set out issues arising from the certification of the claim.** These details were also set out in our Annual Certification Report for 2012/13. We will issue the Annual Certification Report for 2013/14 in February 2015.

### *Summary of Recommendations*

**Our audit identified no significant recommendations that we wish to highlight in this Audit Letter.**

There were observations that we drew to the attention of the Authority's Corporate Governance Committee, within our Report to those charged with Governance (ISA (UK&I) 260), regarding the governance and communications between relevant stakeholders (management, internal and external auditors) in East Midlands Shared Services (EMSS).

# Final Fees

## Final Fees for 2013/14

We reported our fee proposals in our audit plan. Our actual fees were in line with our proposals.

Our fees charged were therefore:

	2013/14 outturn	2013/14 fee proposal	2012/13 final outturn
<b>Audit work performed under the Code of Audit Practice</b>	112,600	112,600	112,600
- Statement of Accounts			
- Conclusion on the ability of the organisation to secure proper arrangements for the economy, efficiency and effectiveness in its use of resources			
- Whole of Government Accounts			
<b>Certification of Claims and Returns</b>	Note 1	Note 1	14,676
<b>Pension Fund Audit</b>	27,637	27,637	27,637
<b>Non Audit Work</b>	27,500	27,500	41,000
<b>TOTAL</b>	<b>167,737</b>	<b>167,737</b>	<b>195,913</b>

## Note 1

Our fee for certification of claims and returns is yet to be finalised for 2013/14 and will be reported to those charged with governance in February 2015 within the 2013/14 Annual Certification Report. The 2012/13 fee is taken from our 2012/13 report.

## Non Audit Work

We performed some work which fell outside of the Code of Audit Practice requirements. Our actual fees for these services were £27,500. More details are included in our ISA 260 report (including our considerations around independence). This report was presented to the Corporate Governance Committee in September 2014.





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.

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