

# *Leicestershire County Council*

November 2014

## External Audit 2014/15 Progress Report



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# External audit update

## 2013/14 External Audit

We reported in detail in our report to those charged with governance (*ISA (UK&I) 260*), our findings on the 2013/14 financial statements to the Corporate Governance Committee on 23 September 2014 and gave an update on the outstanding matters from the financial statements audit.

We present alongside this update report our Annual Audit Letter for 2013/14, which summarises our work for 2013/14. The only outstanding item is in relation to your pension fund annual report, once we receive your pension fund annual report we will be able to issue our completion certificate for 2013/14 and we will have completed our audit responsibilities for the 2013/14 financial year.

## 2014/15 External Audit

We are pleased to confirm that the audit team will remain unchanged for the 2014/15 audit. Richard Bacon will continue to be your Engagement Leader supported by Matthew Elmer and Edward Cooke as senior manager and manager respectively supported by Jodie Stead as Team Leader who will be responsible for the day to day and onsite liaison with the main finance team.

We see that continuity is essential as we have built up good working relationships with the Council and have developed a solid understanding of your systems and processes.

We have commenced our planning phase of the 2014/15 audit in October and will continue over the next couple of months. The key aspects of our planning phase will include:

- Regular meetings with management to keep up to date with key developments;
- Liaison with internal audit to understand the work carried out;
- Updating our understanding of the overall control environment and control activities;
- Identification and assessment of audit risks; and
- Development of our audit strategy.

Our planning work will contribute to the development of our Audit Plan which we look forward to presenting to you at the next Corporate Governance Committee.

## 2014/15 Fees

In May 2014 we issued our 2014/15 planning letter confirming the fees proposed for the 2014/15 programme of audit work as published by the Audit Commission. At the time of writing we are not aware of any changes to these proposals and the total indicative fee for the 2014/15 audit is £102,600 for the financial statements audit and £27,637 for the pension fund audit (excluding VAT).

## 2014/15 Risks

We will present our detailed risk assessment and planned response as part of our annual plan. At this stage we anticipate the following significant risks for the 2014/15 audit plan.

### Financial statement risks:

#### Fraud and Management Override of Controls

ISA (UK&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.

#### Recognition of income and expenditure

Under ISA (UK&I) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition.

There is a risk that the Council could adopt accounting policies or treat income and expenditure transactions in such a way as to lead to material misstatement in the reported revenue and expenditure position.

#### **Value for money conclusion risks:**

##### **Medium Term Financial Strategy**

The Authority has made significant strides over the past few years to identify savings and deliver more efficient services. Given the size and current uncertainties given the upcoming general elections it is anticipated that your MTFs, the assumptions on which it is based and proposed savings plans as part of your transformation agenda is critical to your ability to secure and deliver economy, efficiency and effectiveness.

##### **Other areas of focus for 2014/15**

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. We will continue to discuss your progress with management and will consider the work of Internal Audit around the ongoing governance and operational progress within EMSS.

##### **Earlier closedown of your accounts**

With changes to the audit regulations and the overall timetable being brought earlier for both preparation of the draft statement of accounts and publication of your audited statement of accounts, we are working with management to explore an earlier close of your draft statement of accounts and an earlier audit timetable, so that you can develop an appropriate timetable and processes for when the regulations take effect.

##### **Independence**

We are required to follow ISA 260, Communication of audit matters with those charged with governance, and Ethical Standard 1, Integrity, objectivity and independence, issued by the Auditing Practices Board. We must communicate at least annually with you regarding all relationships between PwC in the UK and other PwC firms and associated entities ('the Firm') and the Council, its directors and senior management that, in our professional judgment, may reasonably be thought to bear on our independence and objectivity.

Based on the enquiries performed to date, we are not aware of any independence related matters that we believe should be brought to your attention at this point.

We will monitor this throughout the audit. As part of our full audit plan and the year-end report to the Corporate Governance Committee, we will reconfirm our independence and detail any non-audit services provided.

##### **Recent PwC Publications**

As part of our regular reporting to you, we keep you up to date with the emerging thought leadership we publish that may be of interest to you. We draw from our Public Sector Research Centre (PSRC) see appendix 2 of this progress report for further details.

# Appendix 1 - Other sector updates

## **Better Care Fund (BCF)**

The Department of Health and Department for Communities and Local Government have announced the results of their review of the first set of local plans for the BCF. The BCF is a shared budget of £3.8 billion available from April 2015 and aims to improve out of hospital care for the elderly and vulnerable, consequently reducing the number of admissions to hospital. Health and wellbeing boards will be able to set their own performance pot (cumulative value of £1 billion) with a guideline reduction in admissions of 3.5% with the balance of the performance allocation being spent on NHS-commissioned community services.

## **Fundamental standards of care**

The government has announced new fundamental standards of care that, subject to parliamentary approval will become law in April 2015. The new fundamental standards are:

- care and treatment must be appropriate and reflect service users' needs and preferences
- service users must be treated with dignity and respect
- care and treatment must only be provided with consent
- care and treatment must be provided in a safe way
- service users must be protected from abuse
- service users' nutritional and hydration needs must be met
- all premises and equipment used must be clean, secure, suitable and used properly
- complaints must be appropriately investigated and appropriate action taken in response
- sufficient numbers of suitably qualified, competent, skilled and experienced staff must be deployed
- persons employed must be of good character, have the necessary qualifications, skills and experience, and be able to perform the work for which they are employed
- registered persons must be open and transparent with service users about their care and treatment (the duty of candour)

As part of the fundamental standards, a new duty of candour and fit and proper persons requirement for directors will be introduced for NHS providers from October 2014, and will be extended to all providers by April 2015, subject to parliamentary approval.

## **Consultation on the new Code of Audit Practice**

As part of the closure of the Audit Commission, the National Audit Office (NAO), on behalf of the Controller and Auditor General, will take on setting the Code of Audit Practice from 2015/16. This new Code of Audit Practice will cover much of the public sector, including NHS foundation trusts.

A copy of the consultation is available at <http://www.nao.org.uk/keep-in-touch/our-surveys/consultation-code-audit-practice/> and the deadline for response is 31 October 2014. In practise it is unlikely that audited bodies will see a significant change in the approach taken by their auditors as part of the new Code of Audit Practice.

## Appendix 2 – PwC publications

### Public Sector Research Centre (PSRC)

The Public Centre Research Centre – UK, features insightful research from UK and similar countries on the issues and the challenges faced by public sector and government officials while providing a roadmap of the future of government.

### Productivity in the public sector - what makes a good job? August 2014.

This new Talking Points publication from PwC and Demos explores what can be done to lift productivity and how the public sector can play its part.

The UK as a whole has a productivity problem. Its workers produce less per hour than their counterparts in France, Germany and the US, with the gap widening since the onset of the financial crisis. The question of how to improve productivity is where debates on growth, living standards and deficit reduction come together. And the public sector has a key role to play in finding the answer.

By creating the right environment for business through their policies, government at all levels can help places build on their strengths and attract the talent and investment that companies need to succeed. And the public sector - as a huge employer - has the potential to make a unique impact to this issue.

In this Talking Points publication from PwC and Demos, we examine the issue of low productivity and the challenges ahead for the public sector, consider the role of the workforce as a partner in solving these dilemmas and draw together discussions over a series of three roundtables on 'good jobs', to present some potential responses including:

- Job design for high productivity working
- Learning and development for an adaptable public sector workforce
- Pay and rewards and their links to productivity

<http://www.pwc.com/gx/en/psrc/united-kingdom/productivity-public-sector.jhtml>

### Who's accountable now? The public's view on decentralisation. August 2014.

Decentralisation is firmly in the sights of politicians nationally and locally in the UK, but is it really possible for government to 'let go' in such a centralised political culture?

As part of our work with IPPR on the 'Decentralisation Decade' we have refreshed our 2009 research exploring who the public hold accountable for public services and for the economy.

Our new research reinforces our 2009 findings: if real powers are transferred to highly accountable bodies then public perceptions of responsibility will change. The public tends to have a relatively good awareness of whether particular bodies have the powers to act in a particular area. But real accountability depends on fully aligning decision-making, budgets and delivery when decentralising.

### Key implications

There are three important implications for those seeking to decentralise:

- Politicians need to hold their nerve: for at least a period of time 'the centre' will still be blamed for failures, either being seen as responsible for the act of devolution or because the public didn't notice or understand that devolution has occurred.
- The public usually needs time to get used to understanding who is responsible for exercising newly decentralised powers. As such, a route map to decentralisation spanning years, not months, is needed to rise to the challenge of letting go of power in our centralised political culture.
- Decentralisation needs to be a two-way process between central government and local bodies: in particular, local government needs to be focussed when negotiating for additional powers and ensure it has the capacity to make best use of them, as shown in the City Deals process.

- If perceptions of accountability are to shift, communications and engagement are essential. Building the case for change and engaging the public in the debate on accountability is, therefore, an essential step if we are to deliver a Decentralisation Decade.

<http://www.pwc.com/gx/en/psrc/united-kingdom/whos-accountable-now.jhtml>

**Decentralisation Decade report: a plan for economic prosperity, public service transformation and democratic renewal. September 2014.**

Decentralisation is firmly in the sights of politicians nationally and locally, but is the tide in favour of decentralisation strong enough to make change substantial and irreversible?

IPPR's report 'The Decentralisation Decade', which we have supported, sets out the prospects and priorities for decentralisation in England over the next 10 years.

Decentralisation Decade sets out five broad principles for decentralisation in England:

- **Decentralisation must be for a broad and clear purpose.** Decentralisation is not an end in itself, but a means to achieve improved outcomes in terms of good growth and public services.
- **Decentralisation must be joined-up.** A coherent and co-ordinated approach is needed across different departments, at different spatial scales and between a wide range of public, private and voluntary actors and enthusiastic citizens too.
- **Decentralisation needs to be asymmetrical.** A multi-speed approach to decentralisation is the way ahead, driven by those areas with the appetite to take on additional powers and responsibilities. Meanwhile government at the centre needs to do more to enable ground-up localisation: the focus should be on enabling a more organic approach to collaboration at local and, where appropriate, regional levels.
- **Decentralisation needs time.** A decade of decentralisation is needed to make the adaptations necessary, develop local capacity and embed a culture of decentralisation.
- **Decentralisation needs cross-party support.** To make a genuine shift in power from the central to the local level requires engagement from across the political spectrum, with national and local governments work in unison rather than in conflict over the long term.

<http://www.pwc.com/gx/en/psrc/united-kingdom/decentralization-decade-report-ippr.jhtml>

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