



# External Audit ISA260 Report 2017/18

**North West  
Leicestershire District  
Council**

October 2018



# Summary for Audit and Governance Committee

**This document summarises the key findings in relation to our 2017-18 external audit at North West Leicestershire District Council ('the Authority'). This report covers both our on-site work which was completed in February and June 2018 onwards on the Authority's significant risk areas, as well as other areas of the financial statements, and the control environment in place to support the production of timely and accurate financial statements.**

## Organisational and IT control environment

We reviewed your IT control environment and identified weaknesses in respect of ledger, capital and new payroll system. The new payroll system issues meant that we had to complete additional work in order to gain assurance over the payroll expenditure figures. We have raised five recommendations which can be found in **Appendix 1**.

## Controls over key financial systems

We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. Based on the work performed, we are satisfied that the majority of controls are performing effectively, but identified an area of weakness in respect of evidencing BACS payment authorisation.

Whilst we have mitigated this weaknesses for the audit, we have raised and recommendation to strengthen the control environment.

## Accounts production

We consider that the overall process for the preparation of your financial statements is adequate.

The Authority incorporated a number of measures into its closedown plan to improve the project management of this process. The Authority recognised the additional pressures associated with the earlier closedown, and we engaged with officers in the period leading up to the year end in order to proactively address issues as they emerged. Officers met the new deadline of 31 May for publishing the draft Statement of Accounts.

We found some quality issues in relation to the working papers provided in 2017/18. As recommended in previous years there is an opportunity for improvements to be made in providing clear and concise management trails of underlying transactions. We have re-iterated our prior year recommendation – see **Appendix 2**.

## Financial statements

**Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements by 12 October 2018.**

Based upon our initial assessment of risks to the financial statements (as reported to you in our *External Audit Plan 2017/18*) we identified the following significant risks (excluding those mandated by International Standards on Auditing – see **Page 9 and onwards**):

- **Pensions Liabilities** – The valuation of the Authority's pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We reviewed the process that the Authority has in place over the information sent directly to the Pension Fund and reviewed management assessment of assumptions used in the valuation report and accounts.

# Summary for Audit and Governance Committee (cont.)

- **Valuation of PPE** – The Authority operates a cyclical revaluation approach, which sees all land and buildings physically revalued every five years, with interim desktop revaluation completed between each physical revaluation. The Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code') requires that all land and buildings be held at fair value. In addition the Authority has had a number of amendments in this area of the financial statements in the previous four years. We considered the way in which the Authority ensures that assets not subject to in-year revaluation are not materially misstated. We also reviewed the instructions and source of the information provided to, and used by, the valuer to inform the Authority's valuation.

We identified material misstatements relating to the incorrect accounting treatment of revaluation of fixed assets. The correction of these errors does not impact on the General Fund and Housing Revenue Account balances as at 31 March 2018, due to the way the revaluation accounting is completed under the CIPFA Code of Practice. This is explained further in Appendix 3. It is our understanding that these will be adjusted in the final version of the financial statements.

We have also identified a number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ('the Code'). We understand that the Authority will also be addressing these in the final statements.

Subject to clearance of our final queries and final (including Director) review we are moving into the completion stage of the audit. We will not be able to issue our certificate alongside the opinion and VFM conclusion due to the Whole of Government Accounts work being outstanding (the deadline for submission was 31 August).

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## **We therefore anticipate issuing an unqualified value for money opinion.**

We set out our assessment of those areas requiring additional risk based work in our *External Audit Plan 2017/18* and have updated this assessment during our audit. As a result of this we identified the following significant VFM audit risk:

- **Medium Term Financial Planning** – The Authority continues to face similar financial pressures and uncertainties to those experienced by others in the local government sector, such as the future of business rate distribution. For 2017/18, the Authority has a balanced budget, but the Medium Term Financial Strategy (MTFS) 2018-2023 identifies funding gap on the general fund of £5.3m between 2019/20 and 2022/23 as a result of increasing cost pressures and reduction in Revenue Support Grant, and from 2020/21 due to a significant forecast reduction in retained business rate income. The Authority is planning to introduce a value-driven target (Self-Sufficiency target) based on 6.25% of the value of New Homes Bonus currently used to provide core services each year from 2019/20 –2022/23. These targets, added to the predicted deficits, increase the savings targets to £6.8m. However, the on-going reliance on New Homes Bonus for core activity is itself a concern, and we note that there is no proposed increase in Council Tax. We reviewed the arrangements the Authority has in place to ensure financial resilience. See further details on **Page 22**.

## Value for money arrangements

# Summary for Audit and Governance Committee (cont.)

## Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about. We have not identified any matters that would require us to issue a public interest report in relation to our 2017/18 audit.

In addition, we have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.

## Acknowledgements

We would like to take this opportunity to thank officers and Members for their continued help.



**Section one**

# Control Environment



# Organisational and IT control environment

**We have identified issues with the Authority's organisational and IT control environment.**

## Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We obtain an understanding of the Authority's overall control environment and determine if appropriate controls are in place. We do not complete detailed testing of these controls.

The Authority relies on information technology ("IT") to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we tested controls over access to systems and data, system changes, system development and computer operations.

## Key findings

We consider that your organisational and IT controls are effective overall except for the weakness noted below:

Issue: **Reliance on third party software** - The Authority operates a number of software packages that are hosted by an external third party, including Payroll and Capital systems. Management were unable to provide adequate assurances in support of our audit in relation to the controls operated by the third party service organisations.

Issue: **Payroll and Capital system password configuration** - The payroll and capital applications are not currently configured to enforce strong password security requirements. This is despite the fact that capital, and certain payroll system users, access the applications through a web-based interface that can be accessed externally.

Issue: **Review of the appropriateness of user access** - The Authority does not currently undertake a periodic review to assess the ongoing appropriateness of user access for the payroll and ledger applications.

Issue: **Revocation of user access within ledger system** - Our testing of user access controls within the ledger system identified a number of cases where a leaver's access was not revoked in a timely manner.

| Aspect of controls                          | Assessment |
|---|------------|
| IT controls:                                |            |
| System changes and maintenance              | 2          |
| Access to systems and data                  | 2          |
| Development of new systems and applications | 3          |
| Computer operations and end-user computing  | 3          |

## Key

|   |  |
|---|--|
| 1 | Significant gaps in the control environment.   |
| 2 | Deficiencies in respect of individual controls |
| 3 | Generally sound control environment.           |

# Controls over key financial systems

**Based on the work performed, we are satisfied that the majority of controls are performing effectively, but identified an area of weakness in respect of evidencing BACS payment authorisation.**

## Work completed

We review the outcome of internal audit's work on the financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy.

Where we have determined that this is the most efficient audit approach to take, we evaluate the design and implementation of the control and then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with your internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

## Key findings

Based on the work performed, we are satisfied that the majority of controls are performing effectively, but identified the following weakness:

— Issue: There was no evidence retained for one of our sample of five authorised BACS payments.

Whilst we have mitigated this weakness for the audit, we have raised one recommendation to strengthen the control environment - **see Appendix 1**.

An overhead photograph of four business professionals sitting around a white conference table in a bright, modern office. The scene is captured from a high angle, showing the backs and sides of the individuals. A woman with blonde hair is at the top, looking down at a laptop. A man in a light blue shirt is on the left, also looking at a laptop. A woman with dark hair is at the bottom left, resting her head on her hand. A man in a light blue shirt is at the bottom right, with his hands clasped behind his head. The office has large windows on the left, casting shadows on the floor. A blue horizontal bar is overlaid across the middle of the image, containing the text.

**Section two**

# Financial Statements



# Accounts production and audit process

**Audit standards (ISA 260) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.**

**We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good quality working papers are critical to meeting the tighter deadlines.**

**The Authority's overall process for the preparation of the financial statements is adequate.**

**The Authority has implemented fully one recommendation and one recommendation has been superseded.**

## Accounts practices and production process

The Authority incorporated a number of measures into its closedown plan to further improve the project management of this complex process. Specifically, the Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to the year end in order to proactively address issues as they emerged.

We consider that the overall process for the preparation of your financial statements is adequate, and enabled the Authority to meet the tighter submission deadline of 31 May 2018.

## Going concern

The financial statements of the Authority have been prepared on a going concern basis. We confirm that we have identified no significant matters which would, in our view, affect the ability of the Authority to continue as a going concern.

Further commentary on the Authority's arrangements in place to secure the financial resilience is included at **Page 21**.

## Implementation of recommendations

We raised six recommendations in our ISA 260 Report 2016/17. The Authority has implemented fully one recommendation and one recommendation has been superseded. Further details are included in **Appendix 2**.

## Completeness of draft accounts

We received a complete set of draft accounts on 30 May 2018 which was in advance of the statutory deadline.

## Response to audit queries

We are pleased to report that our agreed turnaround time for dealing with audit queries was achieved by officers, including those who are not part of the finance team.

## Quality of supporting working papers

We issued our Accounts Audit Protocol to Head of Finance and S151 officer in February 2018. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide to support our audit work. This helps the Authority to provide audit evidence in line with our expectations. We followed this up with a meeting with Management to discuss specific requirements of the document request list.

We found some quality issues in relation to the working papers provided in 2017/18. The quality of audit evidence for some areas of the accounts did meet the required standard, which was set out in our Accounts Audit Protocol 2017/18. There is an opportunity for improvements to be made in providing clear and concise audit trails of underlying transactions.

We have re-iterated previous year's recommendation in respect of this, see **Appendix 2**.

# Specific audit areas

**We anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements by 31 July 2018.**

Auditing standards require us to consider two standard risks for all organisations. We consider these as a matter of course in our audit and will have set out the findings arising from our work in our ISA 260 Report below.

01

## Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

02

## Fraudulent revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2017-18* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Over the following pages we have set out our assessment of the specific significant risks and areas of audit focus we identified in relation to the audit of the Authority's financial statements.

# Specific audit areas

## Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

|   |  |
|---|--|
| <p><b>Risk:</b></p>                               | <p><b>Valuation of PPE</b></p> <p>The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a cyclical revaluation approach, which sees all land and buildings physically revalued every five years, with interim desktop revaluation completed between each physical revaluation. As a result of this, however, individual assets may not be physically revalued for four years. This creates a risk that the carrying value of those assets not physically revalued in the interim years differs materially from the actual year end fair value.</p> <p>Due to the level of amendments required in this area of the financial statements in the previous four years, this creates a further risk that the asset values stated in the financial statements may not be accurate.</p>   |
| <p><b>Our assessment and work undertaken:</b></p> | <p>We reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach. We will also assessed the risk of the valuation changing materially during the year.</p> <p>We considered the instructions and source of the information provided to, and used by, the valuer to inform the Authority's PPE valuation and undertook appropriate testing to ensure both its completeness and accuracy.</p> <p>We assessed the valuer's qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions).</p> <p>We reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate. We identified material misstatements relating to the incorrect accounting treatment of revaluation of fixed assets. The correction of these errors does not impact on the General Fund and Housing Revenue Account balances as at 31 March 2018, due to the way the revaluation accounting is completed under the CIPFA Code of Practice. This is explained further in <b>Appendix 3</b>.</p> |

# Specific audit areas (cont.)

## Significant Audit Risks

|  |   |
|--|---|
| <b>Risk:</b>                               | <b>Pension Liabilities</b> <p>The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of Leicestershire County Council, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.</p> <p>The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact on the net pension liability as accounted for in the financial statements.</p> |
| <b>Our assessment and work undertaken:</b> | <p>As part of our work we reviewed the process that the Authority has in place over the information sent directly to the Pension Fund. The Pension Fund is responsible for submitting the information to the Scheme Actuary. This included consideration of the process and controls with respect to the assumptions used in the valuation of scheme assets.</p> <p>We also liaised with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. We also evaluated the competency, objectivity and independence of Hymans Robertson. We also reviewed management assessment of assumptions used in the valuation report and accounts.</p> <p>We have set out our view of the assumptions used in valuing pension assets and liabilities at <b>page 15</b>.</p>  |



# Specific audit areas (cont.)

## Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

### Issue:

#### Faster Close

In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.

In order to meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that will need to be managed. These include:

- Ensuring that any third parties involved in the production of the accounts (including valuers, actuaries) are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with this;
- Revising the closedown and accounts production timetable in order to ensure that all working papers and other supporting documentation are available at the start of the audit process;
- Ensuring that the Audit and Governance Committee meeting schedules have been updated to permit signing in July; and
- Applying a shorter paper deadline to the July meeting of the Audit and Governance Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report.

In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline.

There is also an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Authority's Whole of Government Accounts (WGA) return and the Pension Fund Annual Report. This is not a matter of concern and is not seen as a breach of deadlines.

### Our assessment and work undertaken:

We liaised with officers in preparation for our audit in order to understand the steps that the Authority was taking in order to ensure it met the revised deadlines.

We received draft financial statements in advance of the statutory deadline of 31 May 2018.

We determined that although some issues were identified in relation to the quality of the audit working papers prepared and provided, overall the Authority were able to meet the requirements of the faster close down.

Our audit certificate is likely to be withheld to allow us to report on your WGA return (31 August deadline).

# Specific audit areas (cont.)

## Other areas of audit focus (cont.)

|  |  |
|--|--|
| <b>Issue:</b>                              | <b>Provision for Business Rates Appeals</b>  |
| <b>Our assessment and work undertaken:</b> | <p>The level of business rates appeals has not significantly reduced nationally and the Valuation Office Agency (VOA) has revalued the rateable value of business properties on 1 April 2017 to reflect change in the property market. There is a continuing risk that the amounts set aside as provisions may not be reasonable. The Authority's provision is expected to be material (2016/17: £3.5m).</p> <p>We reviewed the basis of 2017/18 business rates provision. The Authority's share of provision for business rates appeals as at 31 March 2018 is £1.97m, which includes £0.5m relating to 2017 Valuation. The Authority has also set aside £0.6m in earmarked reserves for the 2017 valuation. Currently there is no available appeals information from the Valuation Office Agency relating to the 2017 Valuation following the introduction of a new appeals process. We agree that it is prudent to set aside this estimated amount as it is reasonable to assume that there will be successful appeals emerging from the new process. However, in our view, the most appropriate way to do this would be to create a reserve rather than a provision (which requires there to be an obligating event under IAS 37). Whilst we have as a result assessed the approach to provisions as cautious (see page 14), we recognise that management is not seeking to amend provisions balances inappropriately as having a reserve would have the same overall impact on the Authority's accounts. Officers have set out to us why they are content that they have met the requirements of IAS 37, and have confirmed that they will continue to review their approach to setting aside resources for potential 2017 appeals as updates are received from the Valuation Office.</p> |



# Judgements (cont.)

**Subjective area**      **Commentary**

Valuation of pension assets and liabilities      The Authority continues to use Hymans Robertson to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation. For example, a 0.5% change in the discount rate would change the net liability by £13.9million. The below table compares the Authority's and KPMG's assumptions using the range on the previous page. The overall set of assumptions proposed by the Authority can be considered to be balanced relative to our central rates for a typical UK scheme with a duration of 18.5 years and within our normally acceptable range. In particular the discount rate, which in isolation is outside the optimistic end of our normally acceptable range, is offset by the cautious assumption for pension increases such that the net rate (which drives the liability calculation) is comfortably within our normally acceptable range.

| Assumption                     | Authority     | KPMG                | Assessment<br>(See previous page for range definitions) | Commentary  |
|--------------------------------|---------------|---------------------|---|---|
| Discount rate                  | 2.70%         | 2.51%               | 6   | The Authority's proposed assumption is considered to be optimistic and outside our normally acceptable range. The estimated impact of moving to the edge of KPMG's normally acceptable range for the discount rate would be to increase the disclosed liability by approximately £1m. |
| Pension Increase Rate          | 2.40%         | 2.15%               | 2   | The proposed assumption is considered to be cautious but within our normally acceptable range.  |
| Salary increases               | CPI plus 1.0% | CPI plus 0% to 2.0% | 3   | We would typically expect salary increases to fall in the range of CPI plus 0% to 2%. Salary increase assumptions have been derived consistently with the approach taken at the most recent LGPS valuation. We would consider this approach to be reasonable.                         |
| Life expectancy at retirement  |               |                     | 2   | The life expectancies assumptions are consistent with those used in the most recent LGPS valuation and can be considered acceptable.  |
| Males currently aged 45 / 65   | 23.8 / 22.1   | 23.5 / 22.1         |   |   |
| Females currently aged 45 / 65 | 26.2 / 24.3   | 25.4 / 23.9         |   |   |



# Proposed opinion and audit differences

**Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements following approval of the Statement of Accounts by the Audit and Governance Committee on 10 October 2018.**

## Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see **Appendix 3**) for this year's audit was set at £0.9 million. Audit differences below £45k are not considered significant.

We identified material misstatements relating to the incorrect accounting treatment of revaluation of fixed assets. The correction of these errors does not impact on the General Fund and Housing Revenue Account balances as at 31 March 2018 due to the way the revaluation accounting is completed under the CIPFA Code of Practice. This is explained further in **Appendix 3**. It is our understanding that these will be adjusted in the final version of the financial statements.

In addition, we identified a number of presentational adjustments required to ensure that the accounts are compliant with the Code. We understand that the Authority will also be addressing these in the final statements where significant.

# Proposed opinion and audit differences (cont.)

## **Annual Governance Statement**

We have reviewed the Authority's 2017-18 Annual Governance Statement and confirmed that it is not misleading and is consistent with other information we are aware of from our audit of the financial statements. A small number of minor presentational changes have been identified, which will be amended in the final version of the statement.

## **Narrative Report**

We have reviewed the Authority's 2017-18 Narrative Report and have confirmed that it is consistent with the financial statements and our understanding of the Authority. A small number of minor presentational changes have been identified, which will be amended in the final version of the report.



# Completion

**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2017-18 financial statements.**

**Before we can issue our opinion we require a signed management representation letter.**

**Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.**

### Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of North West Leicestershire District Council for the year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and North West Leicestershire District Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in **Appendix 5** in accordance with ISA 260.

### Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Head of Financial Services for presentation to the Audit and Governance Committee. We require a signed copy of your management representations before we issue our audit opinion.

### Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgement, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017-18 financial statements.

**Section three**

# Value for Money Arrangements





# Specific value for money risk areas

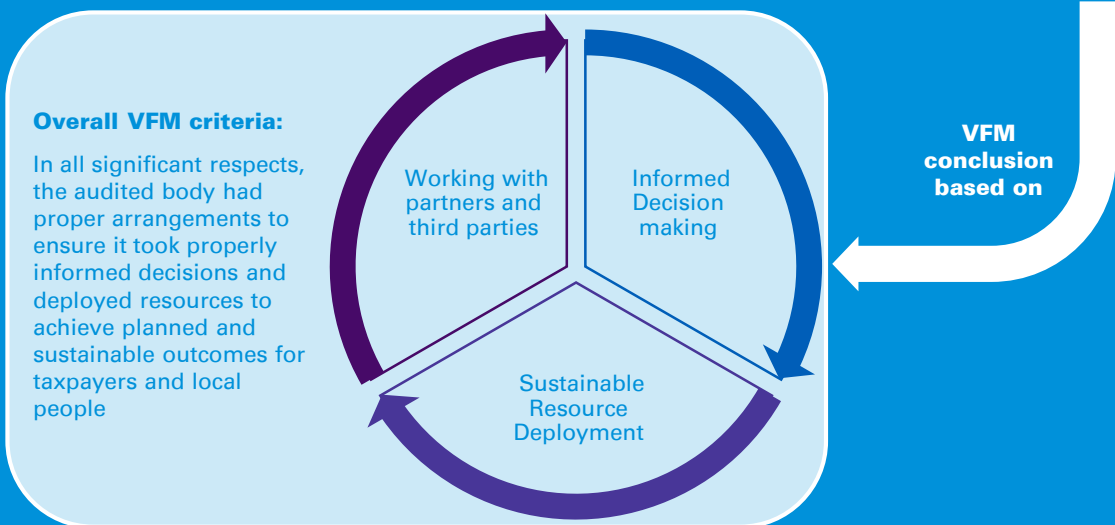
Our 2017-18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

We follow a risk based approach to target audit effort on the areas of greatest audit risk.



### Section three: Value for Money arrangements

# Specific value for money risk areas (cont.)

The table below summarises our assessment of the individual VFM risk identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

#### Applicability of VFM Risks to VFM sub-criteria

| VFM Risk                       | Informed decision making | Sustainable resource deployment | Working with partner and third parties |
|--------------------------------|--------------------------|---------------------------------|--|
| Medium Term Financial Planning | ✓                        | ✓                               | ✓                                      |

In consideration of the above, we have concluded that in 2017-18, the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Further details on the work done and our assessment are provided on the following pages.



# Specific value for money risk areas (cont.)

As communicated to you in our *External Audit Plan 2017-18* we have identified one risk requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to this risk area are adequate.

We have provided below a summary of the risk area identified, our work undertaken and the conclusions reached.

## VFM Risk

### Medium Term Financial Planning

The Authority continues to face similar financial pressures and uncertainties to those experienced by others in the local government sector, such as the future of business rate distribution. For 2017/18, the Authority has a balanced budget, but the Medium Term Financial Strategy (MTFS) 2018-2023 identifies funding gap on the general fund of £5.3m between 2019/20 and 2022/23 as a result of increasing cost pressures and reduction in Revenue Support Grant, and from 2020/21 due to a significant forecast reduction in retained business rate income. The Authority is planning to introduce a value-driven target (Self-Sufficiency target) based on 6.25% of the value of New Homes Bonus currently used to provide core services each year from 2019/20 –2022/23. These targets, added to the predicted deficits, increase the savings targets to £6.8m. However, the on-going reliance on New Homes Bonus for core activity is itself a concern, and we note that there is no proposed increase in Council Tax. The Authority needs to have effective arrangements in place for managing its annual budget, generating income and identifying and implementing any savings required to balance its medium term financial plan

## Our assessment and work undertaken:

We have undertaken the following procedures over this VFM risk:

- Reviewed the arrangements the Authority has in place to ensure financial resilience;
- Reviewed the Authority's arrangements in place to deliver services through partnerships; and
- Review the arrangements the Authority has in place to identify and introduce a Self-Sufficiency target and savings plans.

We have completed our assessment by:

- Regular liaison with the Chief Executive, Head of Finance and S151 officer and personnel;
- Review of the Medium Term Financial Strategy 2018/19 to 2022/23; and
- Review of 2017/18 outturn vs budget and 2018/19 budget.

Our findings are summarised below:

- The Authority reported a surplus of £3.271m on its net cost of services general fund budget for 2017/18 of which £3.271m is transferred to earmarked and self sufficiency reserves. The General Fund reserve stands at £14.5m as at 31 March 2018. This is still above the minimum General Fund reserve balance set by the Authority of 10% of net expenditure, which for 2017/18 is £1.15m.
- The Authority reported a surplus of £0.5 m on its Housing Revenue Account Budget for 2017/18. The Housing Revenue Account stands at £10.055m as at 31 March 2018. This is still above the minimum Housing Revenue Account set by the Authority of £1m.

# Specific value for money risk areas (cont.)

## Significant VFM Risks (cont.)

**Our assessment and work undertaken:**

- The Authority has set a General Fund balanced budget of £13.5m for 2018/19 with planned contribution to the reserves of £0.3m.
- The Authority has set a surplus Housing Revenue Account budget of £2.9m for 2018/19 with a contribution of £2.9m to the debt repayment reserve to support future repayment of maturing loans. The surplus is due to the proposed level of revenue contribution to capital outlay (RCCO) decreasing from £3.0 m to zero as a result of variations in the investment needs of the improvement programme and re-profiling the new build programme. The Housing Revenue Account is forecast to stand at £1m as at 31 March 2019 (the minimum level).
- The Authority has refreshed its Medium Term Financial Strategy 2018/19 to 2022/23. The Authority is currently projecting a budget shortfall of £4.5m between 2020/21 to 2022/23, which needs to be addressed through savings and income generation opportunities. In addition the on-going reliance on New Homes Bonus for core activity is itself a concern, and we note that the Authority is an outlier amongst neighbouring Authorities in terms of not increasing the Council Tax, resulting in foregone income and a lower tax base for any future increases.
- A Journey to Self-Sufficiency Programme Board has been established and four key work streams have been identified (Commercialism, Phase 2 Organisational Restructures, savings and budget process). It is anticipated that Cabinet will be presented with its first recommendations regarding the use of the self-sufficiency reserve as part of an update on the Journey to Self-Sufficiency Programme (including Commercial Strategy and savings) when the draft budget and MTFS for 2019/20 and beyond is reviewed by Cabinet in December 2018. As at 31 March 2018 the self-sufficiency reserve stands at £2.76m.
- The Authority works with a number of partners to deliver services including providing onsite office space to Leicestershire Police, and working with the Leicestershire Revenues and Benefits Partnership to deliver the Authority's revenue and benefits services. The Authority also works with partners through its Safer North West Leicestershire Partnership to:
  - make Authority's community safer for residents, communities, businesses and visitors;
  - support and protect all those who are vulnerable within the Authority's community; and
  - work in partnership to achieve better value in what the Authority deliver to residents, communities, businesses and visitors.
- Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services. This is further complicated by the continuing uncertainty relating to the future of financing of local government, particularly business rate reform, fair funding review and the strategy for funding social care, as well as the more general uncertainties in relation to Brexit.
- Although the Authority is in a relatively sound position financially at present, it is likely that it will still need to make tough decisions ahead to deliver balanced budgets over the coming years, and also maintain strict budgetary control to minimise overspends and continue to monitor delivery of savings targets tightly.



# Appendices



## Appendix 1:

# Key issues and recommendations

Our audit work on the Authority's 2017/18 financial statements has identified five issues. We have listed these issues in this appendix together with our recommendations which we have agreed with Management. We have also included Management's responses to these recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations.

We have given each recommendation a risk rating and agreed what action management will need to take.

### Priority Rating for Recommendations

|          |  |          |  |          |   |
|----------|--|----------|--|----------|---|
| <b>1</b> | <p><b>Priority One:</b> Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p> <p>Recommendations Raised: 0</p> | <b>2</b> | <p><b>Priority Two:</b> Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p> <p>Recommendations Raised: 5</p> | <b>3</b> | <p><b>Priority Three:</b> Issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p> <p>Recommendations Raised: 0</p> |
|----------|--|----------|--|----------|---|

| No. | Risk | Issue & Recommendation   | Management Response  |
|-----|------|--|--|
| 1   | 2    | <p><b>BACS Authorisation</b></p> <p>Our audit work identified a lack of evidence to confirm that one BACS payment had been authorisation out of our sample of five.</p> <p><b>Risk</b></p> <p>There is a risk that BACS payments are made without appropriate authorisation.</p> <p><b>Recommendation</b></p> <p>The Authority should ensure evidence is retained for all BACS payment transactions.</p>   | <p>Internal testing with regard to this issue has identified that the unauthorised payment was an anomaly.</p> <p>A revised authorisation process for signing off payments was implemented in June 2018 to mitigate any further occurrence of this issue.</p> <p><b>Responsible Officer</b></p> <p>Head of Finance and Section 151 Officer</p> <p><b>Implementation Deadline</b></p> <p>Implemented June 2018.</p> |
| 2   | 2    | <p><b>Payroll and capital system password configuration</b></p> <p>The payroll and capital applications are not currently configured to enforce strong password security requirements. This is despite the fact that capital, and certain payroll system users, access the applications through a web-based interface that can be accessed externally.</p> <p><b>Risk</b></p> <p>There is an increased the risk of inappropriate access to, or amendment of, Authority data.</p> <p><b>Recommendation</b></p> <p>The payroll and capital applications should be configured to enforce stronger password security requirements.</p> | <p>Reconfiguration to enforce stronger password security requirements on the payroll and capital systems will be undertaken and implemented by November 2018.</p> <p><b>Responsible Officer</b></p> <p>HR Analyst (Payroll system)</p> <p>Finance Team Manager and Deputy Section 151 Officer (Capital system).</p> <p><b>Implementation Deadline</b></p> <p>November 2018</p>                                     |

# Key issues and recommendations

| No. | Risk | Issue & Recommendation  | Management Response   |
|-----|------|---|---|
| 3   | 2    | <p><b>Reliance on third party software</b></p> <p>The Authority operates a number of software packages that are hosted by an external third party, including payroll and capital systems. Management were unable to provide adequate assurances in support of our audit in relation to the controls operated by the third party service organisations.</p> <p><b>Risk</b></p> <p>Without adequate oversight of the controls operated by third party outsourcers, insufficient controls may be in operation to ensure the ongoing protection of the confidentiality, availability and integrity of the Authority data stored within these systems.</p> <p><b>Recommendation</b></p> <p>We recommend that the Authority takes steps to gain assurance over the controls operated by third party outsourcers, for example through obtaining and inspecting an appropriate report for the service provided.</p> | <p>As a further security measure, the Council has closely scrutinised and reconciled its payroll and capital data processes for 2017/18 and can confirm that there have been no issues. All new 3rd party externally hosted software procurement includes a security element and requirement from the supplier, including a yearly PEN (Penetration test) and controls operated report. This is written into the procurement ITT. The report is sent to the IT department Security Officer and IT Manager to ensure compliance and any vulnerability issues classified as high or critical are reviewed and resolved.</p> <p>A review to test the validity of this will be undertaken by March 2019.</p> <p>For historic hosted systems, predating this approach, where there are not existing controls in place to follow up on the controls operated by the vendor or PEN testing to ensure compliance, IT Team Manager will ensure that there is a yearly control audit and PEN test conducted. The report is forwarded to the service area product owner and IT Manager for review and action.</p> <p><b>Responsible Officer</b></p> <p>IT Team Manager</p> <p><b>Implementation Deadline</b></p> <p>March 2019</p> |
| 4   | 3    | <p><b>Review of the appropriateness of user access</b></p> <p>The Authority does not currently undertake a periodic review to assess the ongoing appropriateness of user access for the payroll and ledger applications.</p> <p><b>Risk</b></p> <p>This increases the risk that users may retain access that is no longer required to support their job role.</p> <p><b>Recommendation</b></p> <p>We recommend that a periodic exercise is undertaken to review the appropriateness of user access to payroll and ledger systems. The exercise should include consideration of the ongoing appropriateness of access rights, with a record retained that includes details of any changes made.</p>  | <p>Improvements have been made to the system access review process for the ledger application following last years recommendation. However, further improvements in respect of the timeliness of the reviews have been acknowledged and a new process was implemented in July 2018 which allows for timely access modification/revocation based on centralised communication of staffing changes. A further quarterly review has been implemented with immediate effect to ensure appropriate user access.</p> <p>Similarly this improvement has been acknowledged in respect of the payroll system and a quarterly review will be implemented with immediate effect.</p> <p><b>Responsible Officer</b></p> <p>Exchequer Services Team Leader (Ledger system)<br/>HR Analyst (Payroll system)</p> <p><b>Implementation Deadline</b></p> <p>Implemented (Ledger system)<br/>.Immediate effect (Payroll system)</p>   |

## Appendix 1:

# Key issues and recommendations

| No. | Risk | Issue & Recommendation   | Management Response   |
|-----|------|--|---|
| 5   | 3    | <p><b>Revocation of user access within ledger system</b></p> <p>Our testing of user access controls within the ledger system identified a number of cases where a leaver's access was not revoked in a timely manner.</p> <p><b>Risk</b></p> <p>There is an increased the risk of inappropriate access to Authority data.</p> <p><b>Recommendation</b></p> <p>We recommend that the Authority reviews the effectiveness of existing processes to revoke access to ledger system from organisational leavers.</p> | <p>Improvements have been made to the system access review process for the ledger application following last years recommendation. However, further improvements in respect of the timeliness of the reviews have been acknowledged and a new process was implemented in July 2018 which allows for timely access modification/revocation based on centralised communication of staffing changes.</p> <p>A further quarterly review has been implemented with immediate effect to ensure user access is revoked as necessary.</p> <p><b>Responsible Officer</b></p> <p>Exchequer Services Team Leader</p> <p><b>Implementation Deadline</b></p> <p>Implemented in July 2018</p> |

## Appendix 2:

# Follow-up of prior year recommendations

**The Authority has implemented fully one recommendation raised through our previous audit work. One recommendation has been superseded.**

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2016-17* and outstanding recommendations from previous audit years and re-iterates any recommendations still outstanding.

### Number of recommendations that were

|   |   |
|---|---|
| Included in the original report                     | 6 |
| Implemented/superseded in year                      | 2 |
| Outstanding at the time of our final accounts audit | 4 |

| No. | Risk | Issue & Recommendation   | Management's Original Response   | Status as at October 2018  |
|-----|------|--|--|--|
| 1   | 2    | <p><b>Users on ledger system</b></p> <p>Our testing identified that nine leavers had not been removed from the ledger system in a timely manner and a regular review of user accounts is not undertaken and documented.</p> <p><b>Recommendation</b></p> <p>The Authority should remove leavers from the ledger system in a timely manner. Additionally, the Authority should perform review of user accounts on a regular basis to ensure that user access remains appropriate.</p> | <p><b>Accepted</b></p> <p>When an employee leaves the authority their user account is deactivated so although their account may still be live on the ledger system, their ability to access the system is removed. We receive information from ICT regarding employees that leave the Authority. The timeliness and completeness of this information will be strengthened and leavers promptly deactivated from the system as a result. We will implement a documented quarterly review of user accounts moving forward.</p> | <p><b>Superseded</b></p>   |
| 2   | 2    | <p><b>Review of actuarial assumptions</b></p> <p>The Authority performs a review of the assumptions used by the actuaries upon receipt of their report, but this is not documented.</p> <p><b>Recommendation</b></p> <p>The Authority should document its review of the actuarial assumptions. This may include reporting to the Audit and Governance Committee for approval by members as happens at a number of authorities.</p>   | <p><b>Accepted</b></p> <p>The Actuary's report is reviewed by the Finance Section, but not documented. In future this will be documented and presented to the Auditors as part of the working papers.</p>  | <p><b>Implemented</b></p> <p><b>KPMG assessment</b></p> <p>The review of assumptions have been documented.</p> |

# Follow-up of prior year recommendations

| No. | Risk | Issue & Recommendation  | Management's Original Response  | Status as at October 2018  |
|-----|------|---|---|--|
| 3   | 2    | <p><b>Unreconciled Cash Flow Statement</b></p> <p>Our testing identified that the Cash Flow Statement did not reconcile by £0.161m due to uncertainty. Whilst this unreconciled balance has reduced from £0.558m that was included within the 2015/16 financial statements, further review of the Cash Flow Statement is required to eliminate the unreconciled balance.</p> <p><b>Recommendation</b></p> <p>The Authority should review the Cash Flow Statement in detail to resolve the unreconciled balance. This may including using CIPFA's Cash Flow Model.</p> | <p><b>Accepted</b></p> <p>Consideration will be given to the method and tools used in producing the Cash Flow Statement for future years with a view to reconcile all balances.</p> | <p><b>Partially Implemented</b></p> <p><b>KPMG assessment</b></p> <p>Our testing identified that the Cash Flow Statement did not reconcile by £0.038m due to uncertainty.</p> <p><b>Management October 2018 response</b></p> <p>Significant progress was made during 2017/18 to identify and eliminate the historic unreconciled balance. Whilst the remaining unreconciled balance value remains below the current external auditors triviality level, it is acknowledged that this is not an ideal position. A further review, led by the Finance Team Manager and Deputy Section 151 Officer, will be undertaken to seek to resolve the unreconciled balance as part of the development of the 2018/19 draft Statement of Accounts.</p> |
| 4   | 2    | <p><b>Documentation of management review of valuation assumptions</b></p> <p>Property assets are revalued on an annual basis by a professional valuer in accordance with the CIPFA Code. Officers review the assumptions related to the estimation processes followed by the appointed valuers. However this review is not documented and as such could not be re-performed.</p> <p><b>Recommendation</b></p> <p>The Authority should document its review of these assumptions to strengthen the control process.</p>   | <p><b>Accepted</b></p> <p>In future, the annual officer's review of valuation assumptions will be documented.</p>   | <p><b>Not implemented</b></p> <p><b>KPMG assessment</b></p> <p>The review of assumptions have not been documented.</p> <p><b>Management October 2018 response</b></p> <p>Whilst significant analysis work was undertaken in validation of the assumptions used by the valuer in arriving at a valuation of the council's property asset's for 2017/18, this process was not documented. In undertaking this process for the drafting of the 2018/19 Statement of Accounts the Head of Finance and Section 151 Officer will request formal sign off of the review of valuation assumptions which are to be documented by the Technical Accountant.</p>  |



# Follow-up of prior year recommendations

| No. | Risk | Issue & Recommendation   | Management's Original Response   | Status as at October 2018  |
|-----|------|--|--|--|
| 5   | 3    | <p><b>Properties, Property, Plant and Equipment processing</b></p> <p>There were a number of errors in the notes for Investment Properties, Property, Plant and Equipment (PPE), Capital Adjustment Account and Revaluation Reserves, which resulted in audit adjustments.</p> <p><b>Recommendation</b></p> <p>The Authority gives priority to reviewing the compilation of these notes.</p> | <p><b>Accepted</b></p> <p>A full and thorough review in relation to capital items will be undertaken in readiness of the production of the 2017/18 financial statements.</p> | <p><b>Partially Implemented</b></p> <p><b>KPMG assessment</b></p> <p>The Authority has undertaken a review of Council Dwelling capital accounting in 2017/18.</p> <p><b>Management October 2018 response</b></p> <p>Whilst significant progress has been made to the accounting treatment of PPE, it is acknowledged that the current manual spreadsheet compilation of the Housing Revenue Account (HRA) property statements and supporting notes are laborious and susceptible to human error.</p> <p>Improvements will be implemented prior to the development of the 2018/19 draft Statement of Accounts to migrate the HRA property data onto the council's capital system. In addition, improvements in respect of the data sharing mechanisms between the Housing and Finance service will be strengthened. The Finance Team Manager and Deputy Section 151 Officer will take responsibility for this.</p> <p>As detailed below, a review of the approach to compiling working papers will be undertaken by March 2019, prior to the drafting and audit of the 2018/19 Statement of Accounts.</p> |

**Appendix 2:**

# Follow-up of prior year recommendations

| No. | Risk | Issue & Recommendation   | Management's Original Response  | Status as at October 2018  |
|-----|------|--|---|--|
| 6   | 3    | <p><b>Working paper</b></p> <p>The supporting working papers to the accounts were of an adequate standard, although could be more clearly presented to avoid additional queries being raised.</p> <p><b>Recommendation</b></p> <p>The Authority should improve working papers to ensure they are clearly presented to support the figures in the financial statements.</p> | <p><b>Accepted</b></p> <p>We will review our working papers with auditors and take any specific comments on board..</p> | <p><b>Partially Implemented</b></p> <p><b>KPMG assessment</b></p> <p>We have seen some improvement to working papers provided from prior year, but there is still scope for further improvement.</p> <p><b>Management October 2018 response</b></p> <p>Whilst some improvement has been made to working papers, a review of the approach to the compilation of these working papers will be undertaken by March 2019, prior to the drafting and audit of the 2018/19 Statement of Accounts. The review and subsequent implementation will be led by the Finance Team Manager and Deputy Section 151 Officer.</p> |

## Appendix 3:

# Audit differences

**We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit and Governance Committee).**

**We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.**

### **Presentational adjustments**

We identified a number of presentational adjustments required to ensure that the Authority's financial statements for the year ending 31 March 2018 are fully compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code').

### **Adjusted audit differences**

The following table sets out the material audit differences identified by our audit of North West Leicestershire District Council's financial statements for the year ended 31 March 2018. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

### Appendix 3:

# Audit differences

## Adjusted audit differences (Cont.)

| Adjusted Audit Difference (£.million) |                               |                                |   |                                     |                                     |                       |  |   |
|---------------------------------------|-------------------------------|--------------------------------|---|-------------------------------------|-------------------------------------|-----------------------|--|---|
| Year                                  | Property, Plant and Equipment | Income and expenditure         | Capital Adjustment Account                | Revaluation Reserve                 | Housing revenue Account             | Major Repairs Reserve | Notes  | Basis of Audit Difference   |
| 15/16                                 | £0                            | £0                             | Credit: Capital Adjustment Account £2.15m | Debit: Revaluation Reserve £2.15m   | £0                                  | £0                    | Cumulative pre-2015/16 Adjustments Correcting opening 2016/17 balances                   | The Authority has incorrectly accounted for the revaluation of fixed assets between Revaluation Reserve and Comprehensive Income and Expenditure Statement.<br><br>Due to the historical nature of these errors, the Authority has recalculated the revaluation transactions, the year in which the Revaluation Reserve was created to ensure the balances on the Revaluation Reserve and Comprehensive Income and Expenditure Statement are correct.<br><br>As result the Authority will restate its 2016/17 balances including opening balances and correct the 2017/18 figures as shown in this table. |
|                                       | <b>£0m</b>                    | <b>£0m</b>                     | <b>Cr £2.15m</b>                          | <b>Dr £2.15m</b>                    | <b>£0m</b>                          | <b>£0m</b>            | <b>Total impact of adjustments on the 2016/17 opening position</b>                       |   |
| 16/17                                 | Debit: PPE £0.042m            | £0                             | £0  | Credit: Revaluation Reserve £0.042m | £0                                  | £0                    | Increase in valuation  | The correction of these errors does not impact on the year end General Fund and Housing Revenue Account balances due to the way the revaluation accounting is completed under CIPFA Code of Practice.   |
|                                       | £0                            | Debit: Net cost of service £4m | Debit: Capital Adjustment Account £4m     | Credit: Revaluation Reserve £4m     | *Credit Housing Revenue Account £4m | £0                    | Reallocation to revaluation reserve<br><br>* Reallocation of CIES adjustment in the MIRS |   |
|                                       | £0                            | £0                             | Credit: Capital Adjustment Account £0.7m  | Debit: Revaluation Reserve £0.7m    | £0                                  | £0                    | Historical Cost Adjustment and write off disposals                                       |   |
|                                       | <b>Dr: £0.042m</b>            | <b>Dr: £4m</b>                 | <b>Dr: £3.3m</b>                          | <b>Cr: £3.342m</b>                  | <b>Cr: £4m</b>                      | <b>£0m</b>            | <b>Total impact of adjustments on the 2016/17 closing position</b>                       |   |

Appendix 3:

# Audit differences

Adjusted audit differences (Cont.)

| Adjusted Audit Difference (£.million) |                               |                                       |   |                                   |                                       |                                      |  |  |
|---------------------------------------|-------------------------------|---------------------------------------|---|-----------------------------------|---------------------------------------|--------------------------------------|--|--|
| Year                                  | Property, Plant and Equipment | Income and expenditure                | Capital Adjustment Account                | Revaluation Reserve               | Housing Revenue Account               | Major Repairs Reserve                | Notes  | Basis of Audit Difference  |
| 17/18                                 | £0                            | Debit: Income and Expenditure £0.05m  | Debit: Capital Adjustment Account £0.05m  | £0                                | Credit Housing Revenue Account £0.05m | Credit: Major Repairs Reserve £0.05m | Depreciation adjustment  | The Authority has incorrectly accounted for the revaluation of fixed assets between Revaluation Reserve and Comprehensive Income and Expenditure Statement.  |
|                                       | Debit: PPE £0.1m              | £0                                    | £0  | Credit: Revaluation Reserve £0.1m | £0                                    | £0                                   | Increase in valuation  |  |
|                                       | £0                            | Credit: Income and Expenditure £0.68m | Credit: Capital Adjustment Account £0.68m | Debit: Revaluation Reserve £0.68m | *Debit Housing Revenue Account £0.68m | £0                                   | Reallocation to revaluation reserve<br><br>* Reallocation of CIES adjustment in the MIRS | Due to the historical nature of these errors, the Authority has recalculated the revaluation transactions, the year in which the Revaluation Reserve was created to ensure the balances on the Revaluation Reserve and Comprehensive Income and Expenditure Statement are correct.                       |
|                                       | £0                            | £0                                    | Credit: Capital Adjustment Account £0.45m | Debit: Revaluation Reserve £0.45m | £0                                    | £0                                   | Historical Cost Adjustment and write off disposals                                       | As result the Authority will restate its 2016/17   |
|                                       | <b>Dr: £0.1m</b>              | <b>Dr: £0.63m</b>                     | <b>Dr: £1.08m</b>                         | <b>Cr: £1.03m</b>                 | <b>Cr: £0.63m</b>                     | <b>Cr: £0.05m</b>                    | <b>Total impact of adjustments on the 2017/18 closing position</b>                       | balances including opening balances and correct the 2017/18 figures as shown in this table.<br><br>The correction of these errors does not impact on the year end General Fund and Housing Revenue Account balances due to the way the revaluation accounting is completed under CIPFA Code of Practice. |

# Materiality and reporting of audit differences

**The assessment of what is material is a matter of professional judgement and includes consideration of three aspects: materiality by value, nature and context.**

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our *External Audit Plan 2017-18*, presented to you in May 2018.

Materiality for the Authority's accounts was set at £0.9 million which equates to around 1.5 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

## **Reporting to the Audit and Governance Committee**

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Governance Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £45k for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Governance to assist it in fulfilling its governance responsibilities.



## Appendix 4:

# Required communications with the Audit and Governance Committee

We have provided below at-a-glance summary of the information we are required to report to you in writing by International Auditing Standards.

| Required Communication  | Commentary  |
|---|---|
| Our draft management representation letter  | We have requested specific representations relating to the restatement of the Authority's prior period financial statement to correct a material relating to fixed assets.  |
| Adjusted audit differences  | We have identified material audit differences.  |
| Unadjusted audit differences  | We have identified no unadjusted audit differences.   |
| Related parties   | There were no significant matters that arose during the audit in connection with the entity's related parties.  |
| Other matters warranting attention by the Audit and Governance Committee          | There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.   |
| Control deficiencies  | We have set out our assessment of the Authority's internal control environment, including details of significant deficiencies identified, see <b>pages 25 to 27</b> .<br>We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing. |
| Actual or suspected fraud, noncompliance with laws or regulations or illegal acts | We identified no actual or suspected fraud involving the Authority's Member or officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.   |
| Significant difficulties  | No significant difficulties were encountered during the audit.  |
| Modifications to auditor's report   | We will not be able to issue our certificate alongside the opinion and VFM conclusion due to the Whole of Government Accounts work being outstanding (the deadline for submission was 31 August).   |
| Disagreements with management or scope limitations                                | The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.  |
| Other information   | No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement. These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.   |
| Our declaration of independence and any breaches of independence                  | No matters to report. The engagement team and others in the firm, as appropriate, the firm and, when applicable, KPMG member firms have complied with relevant ethical requirements regarding independence.<br>See <b>Appendix 5</b> for further details.   |
| Accounting practices  | Over the course of our audit, we have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.<br>We have set out our view of the assumptions used in valuing pension assets and liabilities at <b>page 14</b> .   |
| Significant matters discussed or subject to correspondence with management        | There were no significant matters arising from the audit.   |

# Declaration of independence

## **ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

### **General procedures to safeguard independence and objectivity**

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

## Appendix 5:

# Declaration of independence (cont.)

## Independence and objectivity considerations relating to the provision of services

### Summary of fees

We have detailed the fees charged by us to the authority for professional services provided by us during the reporting period. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

|   | 2017-18<br>£  | 2016-17<br>£  |
|---|---------------|---------------|
| Audit of the Authority (note 1)           | 50,522*       | 51,869        |
| <b>Total audit services</b>               | <b>50,522</b> | <b>41,912</b> |
| Mandatory assurance services              | 9,128         | 15,184        |
| <b>Total mandatory assurance services</b> | <b>9,128</b>  | <b>15,184</b> |
| Audit related assurance services          | 3,500         | 3,500         |
| <b>Total Non Audit Services</b>           | <b>3,500</b>  | <b>3,500</b>  |

### Note 1: Accounts opinion and use of resources work

For 2017/18, we have discussed additional fee with the Head of Finance and s151 Officer in relation to the additional payroll and capital work undertaken to gain assurance over payroll expenditure and fixed asset accounting in the statement of the accounts. This is still subject to final agreement and PSAA approval.

\*Total excludes this additional fee.

The certification of Housing Benefit subsidy returns do not count towards the maximum 70% of audit fee threshold set by the NAO for non-audit work. No approval is required from PSAA for the non-audit services above as they are below the relevant threshold. In addition, we monitor our fees to ensure that we comply with the 70% non-audit fee cap set by the NAO.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out table on the following page.

## Appendix 5:

# Declaration of independence (cont.)

Analysis of services for the year ended 31 March 2018

| Description of scope of services  | Principal threats to independence and Safeguards applied  | Basis of fee | Value of services delivered in the year ended 31 March 2018<br>£ | Value of services committed but not yet delivered<br>£ |
|---|---|--------------|--|--|
| <b>Audit-related assurance services</b>   |   |              |  |  |
| Grant Certification – Pooling of Housing Capital Receipts Return 2016/17<br><br>(Performed in 2017/18 but related to 2016/17) | <p><b>Self-interest:</b> This engagement is entirely separate from the audit through separate contract. In addition, the statutory audit fee scale rates were set independently to KPMG by the PSAA. Therefore, this engagement has no perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough audit.</p> <p><b>Self-review:</b> The nature of this work is auditing this grant return. The return has no impact on the main audit. Therefore this does not impact on our opinion and we do not consider that the outcome of this work threatens to our role as external auditors. Consequently we consider we have appropriately managed this threat.</p> <p><b>Management threat:</b> This work will be audit work only – all decisions are made by the Authority.</p> <p><b>Familiarity:</b> This threat is limited given the scale, nature and timing of the work.</p> <p><b>Advocacy:</b> We will not act as advocates for the Authority in any aspect of this work. We will draw on our experience in such roles to provide the Authority with a range of approaches but the scope of this work falls well short of any advocacy role.</p> <p><b>Intimidation:</b> not applicable.</p> | Fixed Fee    | 3,500  | -  |
| <b>Mandatory assurance services</b>   |   |              |  |  |
| Grant Certification – Housing Benefit Subsidy Return  | The nature of this mandatory assurance service is to provide independent assurance on this return. The fee is set by the PSAA. As such we do not consider it to create any independence threats.  | Fixed Fee    | 15,184   | 9,128  |

## Appendix 5:

# Declaration of independence (cont.)

### Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit and Governance Committee.

### Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit and Governance Committee of the Authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP

**KPMG LLP**





The key contacts in relation to our audit are:

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website ([www.psa.co.uk](http://www.psa.co.uk)).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tony Crawley, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to [Andrew.Sayers@kpmg.co.uk](mailto:Andrew.Sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk) by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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