APPENDIX A

KPMG

External audit report 2016/17

North West Leicestershire District Council

September 2017

Summary for Audit and Governance Committee

Financial statements

This document summarises the key findings in relation to our 2016-17 external audit at North West Leicestershire District Council ('the Authority').

This report focuses on our on-site work which was completed in July and August 2017 on the Authority's significant risk areas, as well as other areas of your financial statements. Our findings are summarised in Section One.

Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 30 September.

The following outstanding matters are currently outstanding:

- Resolution of revaluation accounting for property, plant and equipment;
- Third party confirmations for investments;
- Receipt of the management representation letter;
- Post balance sheet events review up to the date of signing the audit opinion;
- Final review of the revised financial statements and Annual Governance Statement; and
- Final review following clearance of remaining matters.

Based on our work, we have raised three recommendations. Details can be found in Appendix one.

The Authority has not yet fully implemented three out of six recommendations from our ISA 260 Report 2015/16. Details can be found in Appendix two.

We are now in the completion stage of the audit and anticipate issuing our completion certificate and Annual Audit letter on or before 30 September.

Use of resources

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.

See further details in section two.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

We ask the Audit and Governance Committee to note this report.

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Section One

Financial Statements

We anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements by 30 September 2017. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE (*'Delivering Good Governance in Local Government'*) published in April 2016.

For the year ending 31 March 2017, the Authority has reported a surplus of £1.825m on the General Fund.

Significant audit risks

Our *External Audit Plan 2016/17* sets out our assessment of the Authority's significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

Significant audit risk 1 - Significant changes in the pension liability due to LGPS Triennial Valuation

Why is this a risk?

During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2016 in line with the *Local Government Pension Scheme (Administration) Regulations 2013*. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation.

There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Leicestershire County Council, who administer the Pension Fund.

Our work to address this risk

We have reviewed the process used to submit payroll data to the Pension Fund and have found no issues to note. We have also tested the year-end submission process and agreed pension costs, liabilities and disclosures under IAS19 to confirmations from the scheme actuary.

We raised a recommendation in our previous year's ISA 260 report that actuarial assumptions should be formally reviewed to ensure that they are appropriate for the Authority, and that this review should be documented. We noted that the actuarial report was presented to Corporate Leadership Team meeting in August 2017 for review, however there is little documentation of management's assessment of the actuarial assumptions. We therefore reiterate the recommendation again this year. See recommendation one in Appendix two.

We have liaised with our own internal actuary as well as engaging with our Pension Fund audit team to gain assurance over the pensions figures. We have received formal letter of assurance from the Pension Fund audit team.

Significant audit risk 2 – Valuation of Property, Plant and Equipment

Why is this a risk?

Due to the inherent risk associated with the estimation of assets, the omission of instructions to the external valuer in relation to a number of surplus assets the Authority held last year and the level of amendments required in this area of the financial statements in the previous three years, we consider this to be a significant risk.

Our work to address this risk

As part of our audit, we reviewed the terms of engagement with the external valuer to ensure compliance with the Authority's accounting policies, CIPFA Code of Practice and IFRS accounting standards. We reviewed the completeness and accuracy of information provided to the external valuer and have found no issues to note.

At the time of this report we are working with officers to resolve our queries on the accounting for the revaluation process to ensure that it is in line with the CIPFA Code of Practice and the underlying IFRS accounting standards. We will provide an update at Audit and Governance Committee.

Significant audit risks

Considerations required by professional standards

Fraud risk of 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 2016/17* 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.

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. Management may have the 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.

Other areas of audit focus

We identified one area of audit focus. These areas are not considered as significant risks as there are less likely to give rise to a material error. Nonetheless these are areas of importance where we would carry out substantive audit procedures to ensure that there is no risk of material misstatement.

Other areas of audit focus - Disclosures associated with retrospective restatement of CIES, EFA and MiRS

Background

CIPFA has introduced changes to the 2016/17 Local Government Accounting Code (Code):

- Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and
- Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MiRS) and replaces the current segmental reporting note.

The Authority was required to make a retrospective restatement of its CIES (cost of services) and the MiRS. New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable accounting standards.

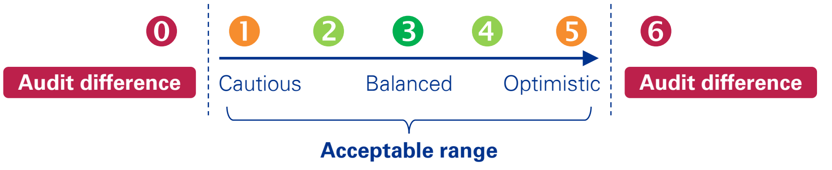
What we have done

For the restatement, we have obtained an understanding of the methodology used to prepare the revised statements. We have also agreed figures disclosed to the Authority’s supporting working papers, which have resulted in presentational changes to the Expenditure and Funding Analysis (EFA) statement and notes to EFA to bring in line with CIPFA Code of Practice.

Judgements

We have considered the level of prudence within key judgements in your 2016/17 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

Level of prudence



Subjective areas	2016/17	2015/16	Commentary
Provisions for business rate appeals	3	3	In 2013/14, changes in local authority funding arrangements meant that the Authority became responsible for a proportion of successful rateable value appeals. The Authority has previously provided for a fixed percentage of outstanding appeals in accounting for the potential liability. NNDR business rates appeals provisions have increased in year to £3.420 million from £2.862 million (2015/16) due to new appeals raised in year. We consider the provision to be proportionate.
Debtors provisioning	3	3	The principles the authority has applied to calculate its bad debt provision have not changed. The bad debt provision has increased over the financial year from £1.736m to £2.048m, which is mainly due to an increase in housing benefits overpayments. We consider the provision disclosures to be prudent.
Property, plant and equipment (valuations and asset lives)	3	3	The Authority continues its use of the beacon methodology in line with the DCLG's *Stock Valuation for Resource Accounting* published in November 2016. The Authority has utilised an external valuation expert to provide valuation estimates. We have reviewed the instructions provided and deem that the valuation exercise is in line with the instructions. The resulting increase is in line with Industry expectations. Asset lives used have not changed from the prior year, and are considered reasonable.
Pensions liability	3	3	The balance of £47.228 million (2015/16: £38.467 million) represents the deficit on the pension scheme. The reported balance, together with assumptions and disclosures, are consistent with the report from the external actuary. KPMG actuaries have reviewed the assumptions applied by the external actuary in calculating the pension liability. All assumptions used are considered to be within our benchmark range.

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 2016/17 financial statements following approval of the Statement of Accounts by the Audit and Governance Committee on 27 September 2017.

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 three for more information on materiality) level for this year's audit was set at £900,000. Audit differences below £45,000 are not considered significant.

We identified a small 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 2016/17 ('the Code'). We understand that the Authority will be addressing these where necessary.

We have also identified that the Cash Flow Statement does not reconcile by £0.161m and as a result the Authority has included a balancing figure to balance the statement. This balance has reduced from the unreconciled balance of £0.558m included within the 2015/16 financial statements. We have raised a recommendation for the Authority to resolve this issue going forward, see Appendix one.

Annual governance statement

We have reviewed the Authority's 2016/17 draft Annual Governance Statement (not received until 23 August 2017) and have made a number of comments in respect of its format, content and the requirements of *Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE (2016).*

Once we receive the final version of 2016/17 Annual Governance Statement we will assess if:

— It complies with *Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE*; and

— It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Going forward the Annual Governance Statement should be produced alongside the financial statements.

Narrative report

We have reviewed the Authority's 2016/17 draft narrative report and confirmed that it is consistent with the financial statements and our understanding of the Authority. However we have made a number of comments in respect of its content and the requirements of Code of Practice, which we understand that the Authority will be addressing. Once we receive the final version of 2016/17 we will assess if the narrative report complies with the requirements of Code of Practice.

Accounts production and audit process

The Accounts and Audit Regulations 2015 introduces a statutory requirement to produce a draft set of financial statements earlier for the year 2017/18. It also shortens the time available for the audit.

Our 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.

Accounting practices and financial reporting

The Authority needs to tighten its financial reporting process to ensure the new 2017/18 deadline is met. The Authority recognises the additional pressures the earlier deadline will brings and will implement lessons learned from this year for the 2017/18 closedown. We consider the Authority's accounting practices appropriate.

Completeness of draft accounts

We received a complete set of draft accounts on 30 June 2017, which is the statutory deadline. Some areas required a number of amendments, notably the narrative report. The annual governance statement was provided on 23 August 2017, which is after the statutory deadline.

Quality of supporting working papers

We issued our *Accounts Audit Protocol 2016/17* ("Prepared by Client" (PBC) request), which outlines our documentation request. This helps the Authority to provide audit evidence in line with our expectations.

The supporting working papers provided did not in all cases meet the requirements of our PBC list and in some cases were delayed. This has caused delays and placed additional pressures on the audit. There is an opportunity for improvements to be made in providing a clear set of working papers that fully meet our audit requirements at the outset of the audit.

Response to audit queries

In the main officers dealt with our audit queries within 2 working days of inquiry. There were however delays in relation to obtaining payroll information, which impedes our ability to conclude our audit work. This needs to be addressed if the Authority is to meet the earlier statutory deadline in 2017/18.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last year's ISA 260 report.

The Authority has fully implemented three out of six recommendations from our ISA 260 Report 2015/16. See Appendix two for further details.

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. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Below we have highlighted exceptions in relation to this year's controls:

Users on Total system

— Our testing identified that nine leavers had not been removed from the Total system in a timely manner and a regular review of user accounts is not undertaken and documented.

Documentation of management review of valuation assumptions

— Officers review the fixed asset revaluation assumptions. However this review is not documented and as such could not be re-performed.

See recommendations in Appendix one.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2016/17 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 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 2017, 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 five 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 Financial Planning Team Manager 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 judgment, 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).

There are no other 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 2016/17 financial statements.

Section two

Value for money

Our 2016/17 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions, worked with partners and other third parties 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, worked with partners and other third parties and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

VFM conclusion

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.'

Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions, worked with partners and other third parties and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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

1 Identification of significant VFM risks (if any)

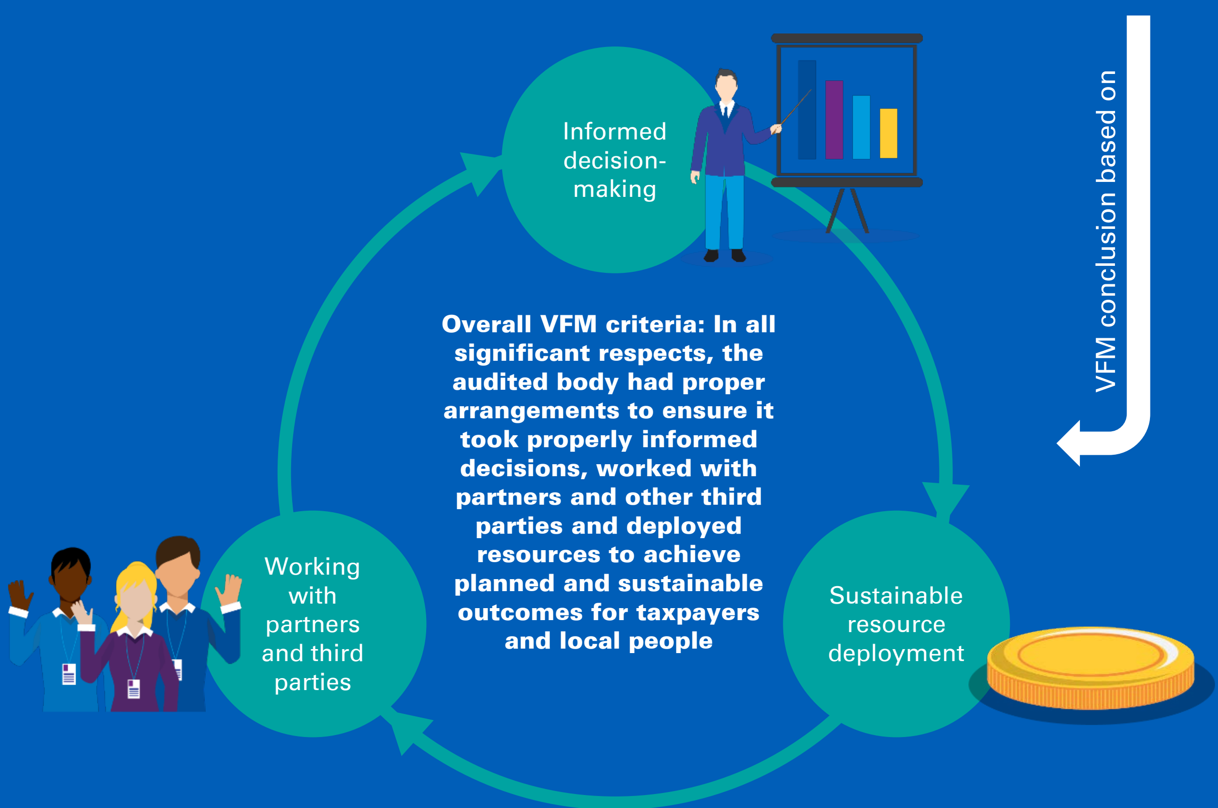
- VFM audit risk assessment
- Financial statements and other audit work

2 Continually re-assess potential VFM risks

- Assessment of work by other review agencies
- Specific local risk-based work

3 VFM conclusion

- **Conclude on arrangements to secure VFM**



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.

VFM assessment summary			
VFM risk	**Informed decision-making**	**Sustainable resource deployment**	**Working with partners and third parties**
Medium Term Financial Plan	✓	✓	✓
Overall summary	✓	✓	✓

In consideration of the above, we have concluded that in 2016/17, the Authority has made proper arrangements to ensure it took properly-informed decisions, worked with partners and other third parties 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.

Significant VFM risks

We have identified one significant VFM risk, as communicated to you in our *2016/17 External Audit Plan*. We are satisfied that a combination of external and internal scrutiny and our own review provides us with sufficient assurance to enable us to conclude that the Authority's current arrangements in relation to this area is adequate. Nevertheless, there are significant challenges ahead.

VFM risk – Medium Term Financial Plan

Why is this a risk?

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 2017-20 highlights savings of £0.372m are required in 2019/20. 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.

Summary of our work

We have reviewed the Authority's General Fund outturn report for 2016/17 and noted that the Authority achieved a surplus of £1.825m compared with a budgeted surplus of £1.082m. The additional surplus is mainly due to the Authority receiving higher than anticipated income from planning fees (£0.172m), recycling (£0.316m) and business rates (£0.342m).

We also note that the Authority's Housing Revenue Account (HRA) outturn for 2016/17 was a surplus of £3.234m compared with a budgeted surplus of £2.395m. This is mainly due to £0.308m underspend on cyclical repairs, £0.210m additional rental income and £0.138m savings from corporate recharges.

The Authority has submitted its four-year efficiency plan to the DCLG. This was in response to the invitation from the Secretary of State in March 2016 for local authorities to engage with Government to secure a multi-year settlement for Revenue Support Grant, thus helping to strengthen the Authority's financial management. The provisional financial settlement for 2017/18 was announced by the Secretary of State on 15 December 2016 and therefore the levels of Revenue Support Grant for the next four years are known which aids medium-term financial planning and target setting.

We have reviewed the income and expenditure assumptions contained in the Medium Term Financial Strategy (MTFS) 2017 to 2020 and consider them to be reasonable. A number of uncertainties exist for the Authority that will impact on future revenue including implications of Brexit, mechanism changes in New Homes Bonus funding, one hundred percent business rates retention of locally collected rates and the outcome of outstanding business rates appeals. The MTFS identifies funding gap of £0.372m in 2019/20, which will be funded through either use of reserves or savings generated.

The income and expenditure assumptions underpinning the 2017/18 budget are reasonable. For 2017/18 the Authority has set a General Fund balanced budget of £12.473m including predicted surplus of £0.903m. In addition the Authority has set a surplus HRA budget for 2017/18 of £0.142m.

Significant VFM risks

VFM risk - Medium Term Financial Plan (Cont.)

Summary of our work

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 is part of the proposed Leicester and Leicestershire Combined Authority, which aims to build closer working relationships with neighbouring Authorities and work collectively for the benefit of Leicestershire. At present approval has not yet been received from Central Government.

Appendices

Key issues and recommendations

Our audit work on the Authority's 2016/17 financial statements have identified a number of 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 will formally follow up these recommendations next year.

Each issue and recommendation have been given a priority rating, which is explained below.

High priority — 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.

Medium priority — 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.

Low priority — Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

The following is a summary of the issues and recommendations raised in the year 2016/17.

2016/17 recommendations summary	
Priority	**Number raised from our audit**
High	-
Medium	3
Low	-
Total	**3**

Medium priority

1. Users on Total system

Our testing identified that nine leavers had not been removed from the Total system in a timely manner and a regular review of user accounts is not undertaken and documented.

Recommendation

The Authority should remove leavers from the Total 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.

Management Response

Accepted

When an employee leaves the authority their user account is deactivated so although their account may still be live on the TOTAL 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.

Owner

Financial Planning Team Manager and Deputy S151 Officer.

Deadline

31 March 2018

Key issues and recommendations (cont.)

Medium priority	**2. Documentation of management review of valuation assumptions** 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. **Recommendation** The Authority should document its review of these assumptions to strengthen the control process.	**Management Response** **Accepted** In future, the annual officer's review of valuation assumptions will be documented. **Owner** Financial Planning Team Manager and Deputy S151 Officer. **Deadline** 31 March 2018
Medium priority	**3. Unreconciled Cash Flow Statement** 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. **Recommendation** The Authority should review the Cash Flow Statement in detail to resolve the unreconciled balance. This may including using CIPFA's Cash Flow Model.	**Management Response** **Accepted** 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. **Owner** Financial Planning Team Manager and Deputy S151 Officer. **Deadline** 31 March 2018

Follow-up of prior year recommendations

In the previous year, we raised six recommendations which we reported in our *External Audit Report 2015/16 (ISA 260)*. The Authority has fully implemented three recommendations. We re-iterate the importance of the outstanding recommendations and recommend that these are implemented by the Authority.

We have used the same rating system as explained in Appendix one.

Each recommendation is assessed during our 2016/17 work, and we have obtained the recommendation's status to date. We have also obtained Management's assessment of each outstanding recommendation.

Below is a summary of the prior year's recommendations.

2015/16 recommendations status summary

Priority	Number raised	Number fully implemented	Number partially implemented / outstanding
High	-	-	-
Medium	3	2	1
Low	3	1	2
Total	**3**	**3**	**3**

Medium priority

1. Review of actuarial assumptions

The Authority performs a review of the assumptions used by the actuaries upon receipt of their report, but this is not documented.

Recommendation:

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.

Management original response

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.

Responsible Officer: Deputy S151 Officer

Date: March 2017

KPMG assessment

We noted that the actuarial report was presented to Corporate Leadership Team meeting in August 2017 for review, however there is little documentation of management's assessment of the actuarial assumptions.

Partially implemented

Management response

An assessment of the actuarial assumptions will be documented in future.

Priority	Issue and recommendation	Management response and KPMG assessment
Medium priority	**2. Bank reconciliations** The monthly bank reconciliations were not completed on a timely basis. There is therefore a risk of potential errors arising from unreconciled cash not being identified on a timely basis. We note that the Authority has brought the bank reconciliations up to date. **Recommendation** The Authority should ensure bank reconciliations are completed on a monthly basis.	**Management original response** During the financial year 2015/16 the Exchequer Services department experienced resource constraints due to a vacant post. This led to bank reconciliations not being completed on a timely basis. This issue was resolved in May 2016 and the bank reconciliations have been brought up to date. Responsible Officer: Deputy S151 Officer Date: May 2016 **KPMG assessment** We have confirmed that bank reconciliations were completed and reviewed in a timely basis. Fully implemented
Medium priority	**3. Service organisation - Reconciliation between VOA and Academy system for Council Tax and NNDR** Our audit work identified a lack of evidence to confirm that weekly reconciliations were completed between property data provided by the Valuation Office Agency (VOA) and the Academy system for Council Tax and NNDR. There is therefore a risk that the number of properties are not recorded accurately on the Academy system. **Recommendation** A reconciliation between the data provided by the VOA and that recorded on Academy should be performed and documented on a weekly basis by the Leicestershire Partnership.	**Management original response** **Agreed** On a number of occasions the weekly reconciliations were not evidenced and documented properly. This has been actioned at the Leicestershire Partnership. Date: March 2017 Responsible Officer: Deputy S151 Officer **KPMG assessment** We have confirmed that this reconciliation has been performed and documented during 2016/17. Fully implemented

Low priority

4. Service organisation – Privileged users on Academy system

Our audit of IT controls in place at the Leicestershire Partnership identified that there are a large number of users with administrative access to the system.

Officers stated that this was due to an advanced level of access being required to allow individuals to amend or re-run batch reports. There is a risk that unauthorised or unwarranted changes are made to the system by users with advanced permissions.

Recommendation:
A review of access rights to the Academy system should be carried out to ensure privileged access rights are only available to limited key individuals.

Management original response

Agreed

A review of system users is scheduled during September 2016. This will ensure the number of users with administrative access is restricted.

Date: 31 December 2016

Responsible Officer: Deputy S151 Officer

KPMG assessment

Our IT work confirmed that there has been a reduction in users with administrative access to the Academy system. There are now thirteen users, which management has confirmed are required in order for the Leicestershire Partnership to deliver the service.

Fully implemented

Low priority

5. Properties, Property, Plant and Equipment processing

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.

Recommendation:
The Authority gives priority to reviewing the compilation of these notes.

Management original response

Agreed

Date: 31 March 2017

Responsible Officer: Deputy S151 Officer

KPMG assessment

Whilst there has been some improvement from last year, we have queried whether or not depreciation written out upon revaluation is in line with CIPFA Code of Practice. We are currently working with officers to resolve this issue.

Partially implemented

Management response

A full and thorough review in relation to capital items will be undertaken in readiness of the production of the 2017/18 financial statements.

Low priority

6. Working papers

The supporting working papers to the accounts were of an adequate standard, although could be more clearly presented to avoid additional queries being raised.

Recommendation:
The Authority should improve working papers to ensure they are clearly presented to support the figures in the financial statements.

Management original response

Agreed

We agree that in some cases there is scope for presenting working papers more clearly. We welcome the opportunity to discuss further the specific working papers involved. In respect of NNDR Pooling in particular the issue should not arise in 2014/15 as the Council is not taking part of any such arrangements, we will however take these comments on board should this change in future years. We will be reviewing our working papers at an early stage prior to commencing the closure of the 2014/15 accounts.

Due Date: March 2017

Responsible Officer: Deputy S151 Officer

KPMG assessment

We have seen some improvement to working papers provided from prior year, but there is still scope for further improvement. We are keen to work with officers on this.

Partially implemented

Management response

We will review our working papers with auditors and take any specific comments on board.

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment 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 2016/17, presented to you in March 2017.

Materiality for the Authority's accounts was set at £900,000 which equates to around 1.6 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, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £45,000 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 Committee to assist it in fulfilling its governance responsibilities.

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

> *"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."*

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd Terms of Appointment ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 Integrity, Objectivity and Independence ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of *ISA (UK&I) 260 'Communication of Audit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our Annual Audit Letter.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit and Governance Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

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 Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

Auditor declaration

In relation to the audit of the financial statements of North West Leicestershire District Council for the financial year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and North West Leicestershire, 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.

Declaration of independence and objectivity (cont.)

Non-audit work and independence

Below we have listed the non-audit work performed during 2016/17 and set out how we have considered and mitigated (where necessary) potential threats to our independence.

Summary of non-audit work		
Description of non-audit service	**Estimated fee**	**Potential threat to auditor independence and associated safeguards in place**
Pooling of Housing Capital Receipts claim 2015/16 (performed in 2016/17)	£3,000	**Self-interest**: This engagement is entirely separate from the audit through a separate contract. In addition, the statutory audit fee scale rates were set independently to KPMG by the PSAA. Therefore, the proposed engagement will have 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. **Self-review:** The nature of this work is auditing this grant claim. The Pooling of Capital Receipt claim has no impact on the main audit, and is completed after the audit was completed. Therefore this does not impact on our opinion and we do not consider that the outcome of this work threats to our role as external auditors. Consequently we consider we have appropriately managed this threat. **Management threat:** This work will be audit work only – all decisions will be made by the Authority. **Familiarity**: This threat is limited given the scale, nature and timing of the work. The existence of the separate team for this work is the key safeguard. **Advocacy**: 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. **Intimidation**: not applicable
Total estimated fees	**£3,000**	
Total estimated fees as a percentage of the external audit fees	**6%**	

Audit fees

Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audit is £50,522 plus VAT (£50,522 in 2015/16), which is consistent with the prior year. See table below for further detail.

Our work on the certification of Housing Benefits (BEN01) is not yet complete. The planned scale fee for this is £15,184 plus VAT (£9,128 in 2015/16). See further details below.

PSAA fee table,		
Component of audit	**2016/17** *(planned fee)* £	**2015/16** *(actual fee)* £
Accounts opinion and use of resources work		
PSAA scale fee set in 2015/16	50,522	50,522
Estimated additional work to conclude our opinions (note 1)	TBC	-
Subtotal	**50,522***	**50,522**
Housing benefits (BEN01) certification work		
PSAA scale fee set in 2015/16 – planned for October 2017	15,184	9,128
Total fee for the Authority	**65,706***	**59,650**

All fees are quoted exclusive of VAT.

Note 1: Accounts opinion and use of resources work
For 2016/17, we have discussed additional fee in relation to the work undertaken in respect of the CIES restatement with the Acting s151 Officer. We have also discussed additional fee relating to the delays and issues noted earlier in this report. This is still subject to final agreement and PSAA approval.

*Total excludes this additional fee.