APPENDIX A

KPMG

External Audit Report 2015/16

North West Leicestershire District Council

September 2016

Contents

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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. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.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 (on 0207 694 8981, or by email to 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, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Section one: Introduction

Introduction

This document summarises:

- **The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for the Authority; and**
- **Our assessment of the Authority's arrangements to secure value for money (VFM).**

Scope of this report

This report summarises the key findings arising from:

- Our audit work at North West Leicestershire District Council ('the Authority') in relation to the Authority's 2015/16 financial statements; and
- The work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2015/16*, presented to you in February 2016, set out the four stages of our financial statements audit process.

Planning → Control Evaluation → Substantive Procedures → Completion

We previously reported on our work on the first two stages in our Progress Report issued in July 2016.

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during August 2016.

It also includes any additional findings in respect of our control evaluation which we have identified since we issued our *Interim Audit Report 2015/16.*

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM Conclusion

Our External Audit Plan 2015/16 explained our risk-based approach to VFM work. We have now completed the work to support our 2015/16 VFM conclusion. This included:

- Assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- Considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas; and
- Carrying out additional risk-based work.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Authority.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations.

The other Appendices in the report add more detail in regard to our audit approach to Materiality and Independence.

Acknowledgements

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

Section two: Headlines

Headlines

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

This table summarises the headline messages. Sections three and four of this report provide further details on each area.

Audit status	Our fieldwork is substantially complete subject to a small number of outstanding queries as detailed on the following page, plus completion of our work on Whole of Government Accounts (which is planned to be completed in September) and final review. Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2016. We also intend to report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE. We will provide a verbal update at the Audit and Governance Committee meeting on any outstanding matters.
Key financial statements audit risks	We identified one significant risk specific to the Authority in our 2015/16 External Audit Plan issued in February 2016. — **Valuation of Property Plant and Equipment -** Due to the inherent risk associated with the estimation of assets, the implementation of IFRS 13 which potentially requires surplus assets to be measured at fair value for 2015/16 and the level of amendments required in this area of the financial statements in the previous two years. We have discussed the approach to valuations with Finance Officers with particular focus on the implementation of IFRS 13 and reviewed the instructions to valuers.
VFM conclusion and risk areas	We identified the following VFM risk in our External audit plan 2015/16 issued in February 2016: — **Future savings plans -** We assessed whether the 2015/16 budget has been achieved as planned and reviewed arrangements in place in regard to the identifying further savings for future years. We have worked with officers throughout the year to discuss this VFM risk and our detailed findings are reported in section 4 of this report. Based on our work completed we intend to issue an unqualified conclusion on your arrangements to provide value for money.
Audit adjustments	We have agreed a number of minor presentational and disclosure changes to supporting notes to the accounts to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code').

Headlines (cont.)

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

This table summarises the headline messages. The remainder of this report provides further details on each area.

Accounts production and audit process	We received a set of complete 2015/16 accounts on 30 June 2016. This unaudited set of accounts, in addition to a public inspection notice, was made available on the authority's website in accordance with the DCLG deadline of 30 June. The accounting policies, accounting estimates and financial statement disclosures are materially in line with the requirements of the Code. The Authority has implemented one of the three recommendations in our *ISA 260 Report 2014/15* relating to the financial statements. The Authority has adequate processes in place for the production of the accounts and have provided adequate quality supporting working papers, although there is scope for improvement. The Authority has made progress in implementing the working paper recommendation raised in last year's ISA 260 report. Further improvement in the quality of working papers is required to maintain the quality of the audit going forward. We have made a further recommendation relating to working papers in Appendix one. We have made recommendations for the improvement of financial and IT controls later in this report. As in previous years, we will debrief with the finance team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2016/17 audit process. In particular we would like to thank Authority's Officers who were available throughout the audit visit to answer our queries.
Completion	At the date of this report our audit of the financial statements is substantially complete subject to completion of the following: — Receipt and review of the amended financial statements; — Resolving the unreconciled cashflow statement; — Outstanding Cash, Investment and loan confirmations; — Capital queries relating to the valuation of leisure centres, capitalisation of salaries and overhead charges and surplus assets; — Receipt of formal confirmation from the Leicestershire Pension Fund auditors that no issues have arisen from their audit work which impacts on pension disclosures in the Authority's accounts; and — Final review following clearance of remaining matters. In addition, DCLG's instructions relating to this year's Whole of Government Accounts (WGA) were delayed, and the deadline for submission is now 31 October rather than 30 September. We will liaise with officers to complete this work when we have completed the outstanding matters on the accounts.

Headlines (cont.)

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

This table summarises the headline messages. The remainder of this report provides further details on each area.

Completion (Continued)	You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We will provide a draft of this representation letter to the Section 151 Officer. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Section three: Financial Statements

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 financial statements.

We have not identified any issues in the course of the audit that are considered to be material.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE

Proposed audit opinion

Subject to the outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September following approval of the Statement of Accounts by the Audit and Governance Committee.

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 two 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 did not identify any material misstatements.

We 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 2015/16 ('the Code').

These adjustments related to disclosures in the narrative statement, property, plant and equipment note, and the collection fund disclosures. None of these changes are significant and we do not consider them to represent a wider weakness in controls.

Annual governance statement

We have reviewed the Annual Governance Statement and confirmed that:

- 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 2015/16 financial statements.

Significant audit risks

We have worked with the Authority throughout the year to discuss significant risks.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16*, presented to you in February 2016, we identified one significant risk affecting the Authority's 2015/16 financial statements. We have now completed our testing of this area and set out our evaluation following our substantive work.

The table below sets out our detailed findings for the risk that is specific to the Authority.

Significant Risk 1

— **Valuation Property, Plant and Equipment**

In 2014/15 the Authority reported a net book value of Property, Plant and Equipment of £181m. Due to the inherent risk associated with the estimation of assets, the implementation of IFRS 13 which potentially requires surplus assets to be measured at fair value for 2015/16 and the level of amendments required in this area of the financial statements in the previous two years, we consider this to be a significant risk.

— **Findings**

We have discussed the approach to valuations with officers with particular focus on the implementation of IFRS 13, and reviewed the instructions to valuers. At the time of this report we are reviewing and the testing impairment and revaluation process against CIPFA Code of Practice and the underlying IFRS accounting standards. We will provide an update at Audit and Governance Committee.

Significant audit risks

We have worked with the Authority throughout the year to discuss significant risks.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

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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 2015/16 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 because of its ability to manipulate accounting records, and to 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 of the Authority.

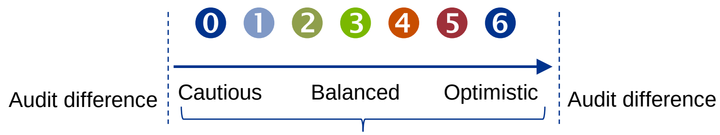
In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

We identified a number of control weaknesses, which are summarised on page 14, but none of these highlight any instances of controls being overridden by management.

Judgements

We always consider the level of prudence within key judgements in your financial statements. We have summarised our view below using the following range of judgement:

Level of prudence



Acceptable range

Assessment of subjective areas			
Asset/liability class	**15/16**	**Balance (£m)**	**KPMG comment**
Provisions	3	£2.986 million *(PY: £2.586 million)*	Current provisions have increased by £0.4 million since the prior year. This is due to increase in the provisions relating to NNDR business rates appeals during 2015/16 which was calculated by the specialist Analyse Local employed by the Authority. We consider the provision disclosures to be proportionate.
Debtors – bad debt provision	3	£2.3 million *(PY: £2.3 million)*	The principles the authority has applied to calculate its bad debt provision have not changed. The authority makes a proportional general provision against all aged debtor balances, and writes off specific debts where payment is considered remote or uneconomical to chase. We consider the provision disclosures to be prudent and in line with accounting standards.
Property, Plant and Equipment (asset lives)	3	£188.9million *(PY: £181.4 million)*	The Authority's property, plant and equipment balance largely consists of council dwellings (86%), other land and buildings (12%), with other categories including vehicles, plant and equipment, community assets and surplus assets (2%). The Authority has followed *Code of Practice on Local Authority Accounting in the United Kingdom 2015/16* ('the Code') during the year and asset lives for these categories have not changed from the prior year. We consider this disclosure to be proportionate.
Pensions	3	£38.4million *(PY: £54.8 million)*	The pension liability as at 31 March 2016 has decreased significantly from prior year mainly due to the actuarial assumptions applied, an increase in discount rate by 0.3%, decreases in pension and salary rate of 0.2% and 1.1% and increase in members life expectancy of 2.2 years. The Authority has taken actuarial advice to calculate its pension liability.

Accounts production and audit process

We have noted an improvement in the quality of the accounts and the supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

The Authority has fully implemented one out of three recommendations in our ISA 260 Report 2014/15

Accounts production and audit process

ISA 260 requires us to communicate to you our views about 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. Overall we consider that you have in place an adequate process for preparing the financial statements.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Finance Team have ensured that the authority has an adequate processes in place for the production of the accounts and adequate quality supporting working papers. The Authority has made progress in implementing the working paper recommendation raised in last year's ISA 260 report. Further improvements in the quality of working papers is required to maintain the quality of the audit going forward.
Completeness of draft accounts	We received a complete set of draft accounts on 30 June 2016. The Authority has one more year where the deadline is 30 June, before moving to 31 May for 2017/18.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued on 10 February 2016 and discussed with Team Leader: Accounts, set out our working paper requirements for the audit. The quality of working papers provided were adequate and there is scope for improvement.
Response to audit queries	Officers resolved all audit queries in a reasonable time.

Additional findings in respect of the control environment for key financial systems

We reported in our progress report to the last Committee meeting that we were yet to complete our testing of controls operated during the closedown process and IT controls. Our review identified the following issues:

- Cash - bank reconciliations were not completed on timely basis.
- Pensions - the Authority does not perform a review of the assumptions used by the actuary upon receipt of their report.
- Council Tax and NNDR - a lack of evidence to confirm that reconciliations between data provided by Valuation Office Agency (VOA) and Academy system were performed on a weekly basis.
- IT- Academy system - there was an excessive number of administrators on the system and this should be restricted to key individuals.

We have made recommendations in Appendix one to improve these areas of control.

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 one out of three recommendations in our *ISA 260 Report 2014/15* except for Property, Plant and Equipment and working papers. Appendix one provides further details.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 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 2016, 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 Four 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 will provide a template to the Deputy S151 Officer 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 etc.).

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report.

Section four: Value for Money

VFM Conclusion

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

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.

Background

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.’

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Authority.

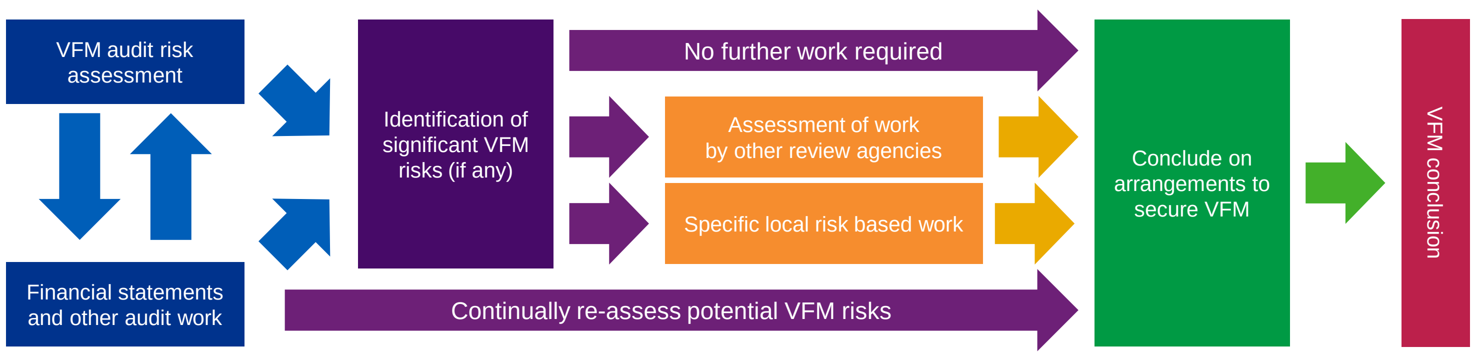
Conclusion

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.

Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Informed decision making	Sustainable resource deployment	Working with partners and third parties
✓	✓	✓
Met	**Met**	**Met**



Specific VFM Risks

We have identified a number of specific VFM risks.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

— Assessed the Authority's key business risks which are relevant to our VFM conclusion;

— Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;

— Considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas; and

— Completed specific local risk based work.

Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we needed to carry out additional work for this risk. This work is now complete and we also report on this below.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Future savings plans	The Authority set balanced budgets for 2015/16 and 2016/17 by continuing to make efficiency savings in response to a number of pressures on services, and grant funding reductions from central government. Strong financial oversight will be required to ensure budgets are delivered as planned. Additionally, the Medium Term Financial Strategy 2016/17- 2019/20 highlights that ongoing savings of £1.9m will be required to achieve budget shortfalls for financial years 2017/18 to 2019/20, which could have a potential impact on the financial standing of the Authority in future years. This is relevant to sustainable resource deployment sub-criteria of the VFM conclusion.	We have reviewed the Authority's outturn report for 2015/16, and noted that an underspend of £2,349k was recorded against the 2015/16 budget. Significant contributions to this included additional planning income of £690k and business rates income of £1,280k. We have reviewed major variances as part of the outturn report, which does not suggest significant overspends relating pressures on services. We have considered these variances at page 19. The Authority is-in the process of refreshing its Medium Term Financial Strategy to reflect the changes in income and expenditure levels. As a result of this, the Authority is expecting a reduction in the original savings required of £1.9m going forward. The Authority will monitor the situation especially with regard to Government announcements in the Autumn Statement and as a result of changes to the New Homes Bonus and business rates initiatives, and will come forward with recommendations as appropriate. We discussed this with relevant officers, and have no concerns to report. No issues were identified which impact our VFM conclusion.

Appendices

Key issues and recommendations

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

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations					
❶	***Priority one***: 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.	❷	***Priority two***: 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.	❸	***Priority three***: 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.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	❷	**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 Response:** The Actuaries 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. **Due Date:** 31st March 2017.

Key issues and recommendations

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

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
2	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 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:** Financial Services Team Manager. **Due Date:** Completed.

Key issues and recommendations - service organisation

The Leicestershire Partnership is run by Hinckley and Bosworth Borough Council, who administer the Council Tax, NNDR and Housing Benefits on behalf of the Authority.

We have identified these control weaknesses as part of our review of these controls at the Partnership.

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

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations					
1	***Priority one***: 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.	2	***Priority two***: 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.	3	***Priority three***: 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.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	2	**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** 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 Response:** On a number of occasions the weekly reconciliations were not evidenced and documented properly. This has been actioned at the Leicestershire Partnership. **Responsible Officer:** Deputy S151 Officer. **Due Date:** 31st March 2017.

Key issues and recommendations - service organisation

The Leicestershire Partnership is run by Hinckley and Bosworth Borough Council, who administer the Council Tax, NNDR and Housing Benefits on behalf of the Authority.

We have identified these control weaknesses as part of our review of these controls at the Partnership.

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

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
2	3	**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 Response:** A review of system users is scheduled during September 2016. This will ensure the number of users with administrative access is restricted. **Responsible Officer:** Deputy S151 Officer. **Due Date:** 31st December 2016.

Follow up of prior year recommendations

The Authority has implemented all but one of the recommendations in our *ISA 260 Report 2014/15*. This recommendation remains partially implemented.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2014/15 and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	3
Implemented in year or superseded	1
Remain outstanding (re-iterated below)	2

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2016
1	3	**Property, Plant and Equipment** 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.	**Responsible Officer:** Deputy S151 Officer. **Due Date:** 31st March 2017.	Our review of the PPE workings identified a presentational issue within the PPE note. This is a significant improvement from the prior year's audit report, in which we identified a number of errors relating to PPE.
2	3	**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.	**Responsible Officer:** Deputy S151 Officer. **Due Date:** 31st March 2017.	We have seen some improvement to working papers provided from prior year.

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Audit differences

This appendix sets out the audit differences.

A number of presentational amendments were made to the financial statements.

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.

Uncorrected audit differences

We identified no uncorrected audit adjustment.

Corrected audit differences

We 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 2015/16 ('the Code').

These adjustments related to disclosures in the narrative statement, property, plant and equipment note and the collection fund disclosures. None of these changes are significant and are not considered to represent a wider weakness in controls.

Materiality and reporting of audit differences

For 2015/16 our materiality is £900,000 for the Authority's accounts.

We have reported all audit differences over £45,000 for the Authority's accounts.

Materiality

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 2015/16, presented to you in February 2016.

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.

Requirements

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 A*udit 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.

Declaration of independence and objectivity (cont.)

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

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of North West Leicestershire District Council for the financial year ending 31 March 2016, 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.

Audit Fees

Our planned scale fee for the audit was £50,522 plus VAT (£67,362 in 2014/15). This fee was in line with that highlighted within our audit plan agreed by the Audit and Governance Committee in June 2015. Our scale fee for certification for the HBCOUNT was £9,128 plus VAT (this work is yet to take place – we will report our findings in regard to this and the final fee to an Audit and Governance Committee later in the year).

In addition we completed other 'assurance' engagements in September 2015 that were subject to agreement directly with the Authority and these were:

- £3,000 plus VAT for Pooling of Housing Capital Receipts return.
- £4,600 plus VAT for HCA Decent Homes Backlog grant.

Due to the nature of the work and the size of the audit fees this is considered to not impact on our independence as auditors.

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