External audit report 2016/17

Harborough District Council

September 2017

Summary for Governance and Audit Committee

Financial statements

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

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

- Responses to our mandatory audit enquiries;
- Receipt of the management representation letter;
- Post balance sheet events review up to the date of signing the audit opinion; and
- 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 implemented all of the 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 Governance and Audit Committee to note this report.

The key contacts in relation to our audit are:

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Contents

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 an underspend of £404,000 against the General Fund budget.

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 risks - 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 confirmed that management have performed and documented their review of actuarial assumptions, and confirmed that the assumptions used by the actuary are appropriate.

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.

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 because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

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

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

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

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.

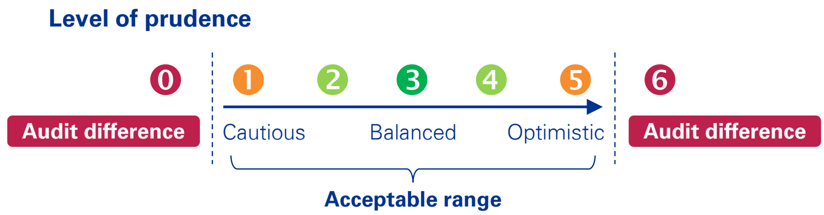
The Authority was required to make a retrospective restatement of its CIES (cost of services) and the MiRS. New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable accounting standards.

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 and found no issues to note.

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.



Subjective areas	2016/17	2015/16	Commentary
NDR provisions	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. We have reviewed the Authority's calculation of the appeals provision. NNDR business rates appeals provisions have decreased by £0.75 million since the prior year due to the reduction in appeals as calculated by the specialist Analyse Local, which is employed by the Authority, and approved by officers. We consider the provision disclosures 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 is broadly in line with last year. We consider the provision disclosures to be prudent.
Property, plant and equipment (valuations and asset lives)	3	3	The Authority's property, plant and equipment balance largely consists of other land and buildings (92%), with other categories including vehicles, plant and equipment (3%), community assets (5%), and assets under construction (1%). The Authority has followed the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ('the Code') during the year and asset lives for these categories have not changed from the prior year. We consider this disclosure to be reasonable. Officers review the land and buildings revaluation assumptions. However this review is not documented and as such could not be re-performed. See recommendation in Appendix one for further detail.
Pensions liability	3	3	The balance of £29.534 million (2015/16: £23.931 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 Governance and Audit Committee on 20 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 £550,000. Audit differences below £25,000 are not considered significant.

We did not identify any material misstatements.

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.

Annual governance statement

We have reviewed the Authority's 2016/17 draft Annual Governance Statement and have made a few comments in respect of its content and the requirements of *Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE (2016).*

We have reviewed the Authority's revised version of 2016/17 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 financial statements.

Narrative report

We have reviewed the Authority's 2016/17 narrative report and confirmed that it is consistent with the financial statements and our understanding of the Authority. We have made a number of comments in respect of its format and content, which we understand that the Authority will be addressing.

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 brought forward their year end timetable for production of the 2016/17 financial statements in preparation for the earlier deadline next year. The Authority has recognised the additional pressures this brings and will implement lessons learned from this exercise 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.

Quality of supporting working papers

We issued our *Accounts Audit Protocol 2016/17* ("Prepared by Client" request) in April 2017 which outlines our documentation request. This helps the Authority to provide audit evidence in line with our expectations.

The Authority provided a full set of working papers on the first day of the audit visit. These were produced to a good standard and met the standards specified in our Accounts Audit Protocol 2016/17.

Response to audit queries

Officers dealt with our audit queries efficiently, responding within appropriate timescales.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report. The Authority has implemented all of the six recommendations in our ISA 260 Report 2015/16.

We have also followed up the government creditor that was reported verbally at Governance and Audit Committee on 22 September 2016. The Authority has completed an in-depth analysis of this creditor in 2016/17 and have reversed out the creditor. We have reviewed the reversal of this creditor and found no issue to note.

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:

Privileged user on eFinancials system

— Our testing identified one member of the management team had privileged access to the eFinanicals system.

Password criteria on Northgate payroll system

— The Authority has access to Northgate payroll system, which is hosted by Leicester City Council (service organisation). Our testing identified that password are not changed within 90 days and system does not lock out users after three invalid attempts.

Documentation of management review of valuation assumptions

— Officers review the land and buildings 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 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 Harborough District Council for the year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Harborough 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 have provided a template to the Head of Finance and Corporate Services (s151 officer) for presentation to the Governance and Audit 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 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

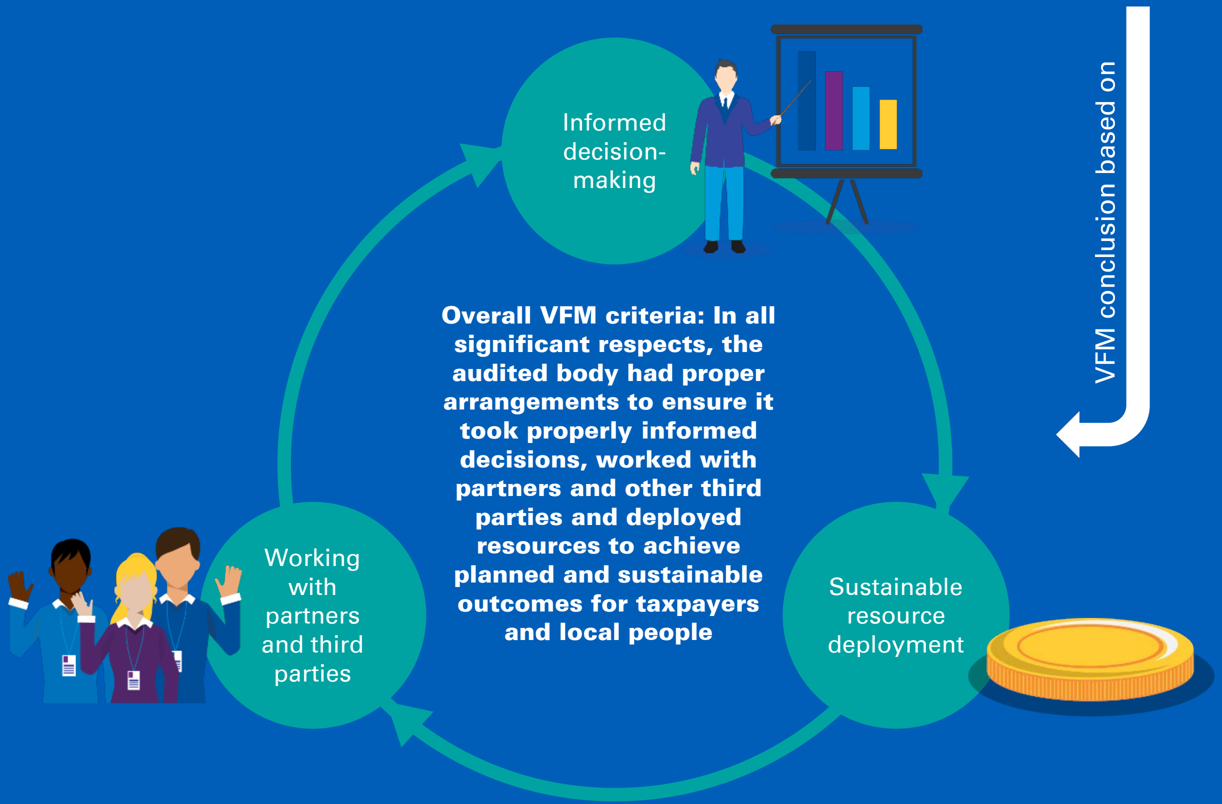
2 Continually re-assess potential VFM risks

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**
Delivery of Financial and Saving Plans	✓	✓	✓
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 - Delivery of Financial and Saving Plans

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. For 2016/17, the Authority has a balanced budget and has detailed further savings and income generation plans totalling £1.17 million. Strong financial oversight will be required to ensure that these plans are achieved given the uncertainties on matters such as the future of business rate distribution. Additionally, the Authority is in the process of developing its Local Plan, likely to be an important element of its overall strategy for being able to demonstrate that it has secured financial resilience.

Summary of our work

We have reviewed the Authority's outturn report for 2016/17 and noted the Authority achieved an underspend on the General Fund of £0.737m (£0.404m after technical accounting adjustments) against an original budget of £11.824m. The underspend is mainly due the Authority receiving higher than anticipated income from planning fees (£0.237m) and subscription based garden waste services (£0.390m).

As part of the 2016/17 budget setting process, the Authority set a number of income generation and savings targets totalling £1.170m. The outturn report confirms that the rationalisation of travel allowances for £0.06m was deferred to 2017/18; however the Authority largely achieved this target through increase in additional income and reductions in net expenditure relating mainly to:

- Subscription based garden waste services of £0.361m;
- Savings in the core Environmental Services Contract of £0.294m; and
- Restructure of the Leicestershire Revenues and Benefits Partnership of £0.087m.

We have reviewed the income and expenditure assumptions contained in the Medium Term Financial Strategy (MTFS) 2016/17 to 2019/10 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 pressures of £1.495m, £2.908m and £3.274m over the period 2017/18 to 2019/20. As a result the Authority has identified funding opinions to mitigate against these pressures, which include increased utilisation of Earmarked reserves, planned use of General Fund reserves, savings from efficiency plan targets and increasing Council Tax.

In October 2016 the Authority 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. The efficiency plan reported that the Authority is expecting to identify efficiencies in excess of £0.350m in 2017/18, £0.600m in 2018/19 and £0.672m in 2019/20 to balance the budget.

Significant VFM risks

VFM risk - Delivery of Financial and Saving Plans (Cont.)

Summary of our work

The income and expenditure assumptions underpinning the 2017/18 budget are reasonable. For 2017/18 the Authority proposes to delivery income generation and savings of £0.700m and use planned reserves of £0.649m to balance the budget. The Authority has projected level of reserves of £13.429m as at 31 March 2018 including general fund balance of £4.928m, which is above the minimum recommended level as set by the Authority.

The Authority works with a number of partners to deliver services including working with the Leicestershire Revenues and Benefits Partnership to deliver the Authority's revenue and benefits services. Welland Internal Audit Consortium provides internal audit service to the Authority with the Head of Internal Audit for the Consortium being provided by LGSS (Local Government Shared Services) under a management arrangement with the Consortium. From 1st April 2017, the Authority's internal audit service will be formally delegated to Local Government Shared Service. The Authority is part of the proposed Leicester and Leicestershire 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	1
Low	2
Total	**3**

Medium priority

1. 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

We are satisfied that our internal review process has given correct results within the financial statements. For future years we will add additional evidence of our review.

Owner

Finance Services Manager and Deputy s151 Officer

Deadline

31 May 2018

Key issues and recommendations (cont.)

Low priority	**2. Privileged user on eFinancials system** We identified that the Head of Finance and Corporate Services (s151 Officer) had system administrator access to the eFinancials system. We would not expect a member of the senior management team to have privileged access to the finance system. **Recommendation** The Head of Finance and Corporate Services (s151 Officer) system administrator access for eFinancials system should be removed.	**Management Response** **Accepted** Head of Finance and Corporate Services (s151 Officer) system administrator access has been removed. **Owner** Finance Services Manager and Deputy s151 Officer **Deadline** Implemented
Low priority	**3. Password criteria on Northgate payroll system** The Authority has access to Northgate payroll system, which is hosted by Leicester City Council (service organisation). Our testing identified that password are not changed within 90 days and system does not lock out users after three invalid attempts. We note that the payroll system has changed from 1 June 2017 to SAFE system. **Recommendation** The Authority should ensure that the previous weaknesses are not repeated in the new payroll system.	**Management Response** **Accepted** We have confirmed with Leicester City Council that the new Payroll system meets the password criteria. **Owner** Finance Services Manager and Deputy s151 Officer **Deadline** Implemented

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 implemented all of the recommendations.

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 implemented / superseded	Number outstanding
High	-	-	-
Medium	3	3	-
Low	3	3	-
Total	**6**	**6**	**-**

Medium priority

1. Reconciliation between Cash Receipting system and Academy system for Council Tax and NNDR receipts

The Authority has processes in place to reconcile Council Tax and NNDR receipts between the cash receipting system and Academy system, however this is not clearly documented.

Recommendation

A reconciliation between cash received per the cash receipting system and that recorded on Academy system should be documented on a regular and timely basis.

Management original response

Agreed

There is a reconciliation between the general ledger and the financial statement report received from Revenues & Benefits produced from the Academy system, this in default reconciles to the cash receipting system. The cash receipting system produces files to go into both the general ledger and the Academy system. The S151 Officer is satisfied with this control but will add a further sign off to evidence management review of this reconciliation.

Date: 1 January 2017

Responsible Officer: Finance Services Manager and Deputy s151 Officer

KPMG assessment

We have confirmed that this reconciliation is performed and documented, which is reviewed by the Financial Services Manager and Deputy s151 Officer.

Fully implemented

Medium priority

2. 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. This control weakness was also raised by internal audit. 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

This check operated successfully for most of 2015/16 and there is evidence of review. However, as a further control the Revenues and Benefits Partnership will ensure that system totals are printed and matched with valuation of schedules and that required documentation is matched and filed with each schedule.

Date: Completed 5 September 2016

Responsible Officer: Partnership Manager

KPMG assessment

We have confirmed that this reconciliation has been performed and documented during 2016/17.

Fully implemented

Medium priority

3. Review of actuarial assumptions

Our review of the Authority's documentation and discussion with relevant officers identified that the Authority do not evidence their review of the assumptions used by the actuaries upon receipt of their report. There is therefore a risk of potential errors arising from incorrect assumption applied by the actuaries, which impacts on the Authority's financial statements.

Recommendation

The Authority should document their review of these assumptions, and as part of best practice the actuarial assumptions report should be taken to the Governance and Audit Committee for approval by members. This in in line with the best practice approach taken at a number of Authorities.

Management original response

Agreed

The commissioning and review of the Pension Report from the actuaries was undertaken by the S151 Officer for the financial year 2015/16 and he is satisfied with the assumptions applied. For the actuarial review required for 2016/17 the S151 Officer will complete a sheet as part of the commissioning of the actuary report formally signing off and evidencing the assumptions.

Date: 31 March 2017

Responsible Officer: Section 151 Officer

KPMG assessment

We have confirmed that this review was undertaken and documented for the 31 March 2017 actuarial report.

Fully implemented

Low priority

4. Retention of payroll check documentation

As part of our control testing, documentation of checks by the payroll officer could not be located for one employee selected for testing, to confirm that the calculation of pay had been confirmed as accurate. We recognise that this was likely to be due at least in part to the disruption caused by the Symington Building repair work. For this employee, we confirmed that no issues were arising with amounts paid. There is a risk that if checks are not fully documented and retained, an appropriate management trail is not in place in the event of issues arising with employee payments.

Recommendation

The Authority should ensure that, following repairs to the Symington Building, documentation is filed and/or scanned for accessibility when required.

Management original response

Agreed

The Authority through its Human Resources and Payroll functions undertake a series of payroll checks to ensure accurate payments are made to employees. This recommendation arises from the building works and access to information rather than a control weakness. The S151 Officer is satisfied that this control area operated as intended in 2015/16. Proposals for scanning electronically the checks will be explored in 2016/17 to facilitate ease of retrieval.

Date: 1 January 2017

Responsible Officer: Section 151 Officer

KPMG assessment

Our work in this area for 2016/17 did not identify any issues with regard to document retention.

Fully implemented

Low priority

5. Bank Reconciliation

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:

The Authority should consider writing off aged un-presented cheques after a specified period of time i.e. when it is considered unlikely that the cheques will be presented for payment.

Management original response

Agreed

In response to our prior year recommendation, the Authority implemented an unpresented cheques policy in which monthly write offs of cheques older than six months would be reinstated. Our review of the year end bank reconciliation identified six cheques, totalling £1,932, which were greater than six months old as at 31 March 2016. This is a significant reduction from the prior year audit report, in which we identified £53,248 of cheques greater than twelve months old.

Date: 30 June 2016

Responsible Officer: Finance Services Manager and Deputy s151 Officer.

KPMG assessment

We have confirmed that cheques greater than six months have been written off as at 31 March 2017.

Fully implemented

Low priority

6. 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

This area had already been identified as an area for review and potential improvement. This had been scheduled for review in quarter 3 of 2016/17.

Date: 31 December 2016

Responsible Officer: Partnership Manager

KPMG assessment

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

Fully implemented

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 £550,000 which equates to around 1.5 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Governance and Audit 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 Governance and Audit 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 £25,000 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 Governance and Audit Committee to assist it in fulfilling its governance responsibilities.

Appendix 4

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 this. These matters should be discussed with the Governance and Audit 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 Harborough District Council for the financial year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Harborough 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.

Appendix 5

Audit fees

Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audit is £41,912 plus VAT (£41,912 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 £15,668 plus VAT (£14,335 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	41,912	41,912
Estimated additional work to conclude our opinions (note 1)	TBC	-
Subtotal	**41,912***	**41,912**
Housing benefits (BEN01) certification work		
PSAA scale fee set in 2015/16 – planned for October 2017	15,668	14,335
Total fee for the Authority	**57,580***	**56,247**

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 Head of Finance and Corporate Services (s151 Officer). This is still subject to final agreement and PSAA approval.
*Total excludes this additional fee.