KPMG

External Audit Report 2015/16

Harborough District Council

September 2016

Contents

The contacts at KPMG in connection with this report are:

Tony Crawley
Director

KPMG LLP (UK)

Tel: 0116 256 6067
tony.crawley@kpmg.co.uk

Sundeep Gill
Audit Manager

KPMG LLP (UK)

Tel: 07798 572337
sundeep.gill@kpmg.co.uk

James Keen
Assistant Manager

KPMG LLP (UK)

Tel: 0121 232 3268
james.keen@kpmg.co.uk

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.**

Scope of this report

This report summarises the key findings arising from:

- Our audit work at Harborough 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 2015, 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 Interim Audit Report 2015/16 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 July and 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. We also include some information from our analysis of invoices paid by the Authority.

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 Governance and Audit Committee meeting on any outstanding matters.
Key financial statements audit risks	We identified no significant risks specific to the Authority during 2015/16 with respect to the financial statements.
VFM conclusion and risk areas	We identified the following VFM risk in our External audit plan 2015/16 issued in February 2016: — **Delivery of financial and savings plans -** we have reviewed the arrangements in place in regard to the preparation and monitoring of savings plans and have no concerns to report. 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	Our audit has identified one uncorrected audit adjustment relating to the omission of Section 31 accrued income of £27k. Detailed findings are included in Appendix 2. We have also 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 29 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 two of the three recommendations in our *ISA 260 Report 2014/15* relating to the financial statements. The Authority has good processes in place for the production of the accounts and have provided good quality supporting working papers. The audit process has been completed within the planned timescales. 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; — 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; — WGA – there was a delay in guidance from DCLG in regard to this year's WGA submission. We plan to complete our work later in September; — Final review following clearance of remaining matters. 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 all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Governance and Audit Committee on 22 September 2016.

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 £550,000. Audit differences below £25,000 are not considered significant.

We did not identify any material misstatements. We did identify one uncorrected audit adjustment relating to the omission of Section 31 accrued income for £27k from the financial statements. Officers have not corrected for this as it does not have a material impact on the financial statements.

In addition, we identified a small number of minor 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 pension liability note, property, plant and equipment note and the collection fund disclosures.

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 and key areas of audit focus.

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.

.

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 12, 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

0 1 2 3 4 5 6

Audit difference | Cautious | Balanced | Optimistic | Audit difference

Acceptable range

Assessment of subjective areas

Asset/liability class	15/16	Balance (£m)	KPMG comment
Provisions	3	£2.3 million *(PY: £1.5 million)*	Current provisions have increased by £0.75 million since the prior year. This is due to an 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: £2.8 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	£33.4 million *(PY: £34.0 million)*	The Authority's property, plant and equipment balance largely consists of other land and buildings (90%), with other categories including vehicles, plant and equipment (3%), community assets (5%), and surplus assets and assets under construction (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	£23.9 million *(PY: £32.9 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 implemented the majority of the 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 a good 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 good processes in place for the production of the accounts and good quality supporting working papers.
Completeness of draft accounts	We received a complete set of draft accounts on 29 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 5 February 2016 and discussed with Team Leader: Accounts, set out our working paper requirements for the audit. The quality of working papers provided was good and met the standards specified in our *Accounts Audit Protocol*.
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. We identified the following control weaknesses relating to the below systems:

- Pensions - 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 actuary upon receipt of their report.
- Payroll – Documentation of checks to confirm pay is accurate could not be located during our audit work for one employee sampled, likely to be due to disruption caused by the Symington Building repair work.
- Council Tax and NNDR - Our review identified a lack of evidence to confirm reconciliations between data provided by Valuation Office Agency (VOA) and Academy system were performed on a weekly basis. In addition the Authority does not clearly document the reconciliation between the cash receipting and Academy systems for Ctax and NNDR receipts.
- IT- Academy system – Our review identified there was a large 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 implemented the majority of the recommendations in our *ISA 260 Report 2014/15* except for unpresented cheques. The Authority implemented an unpresented cheques policy in 2015/16, however a small number, totalling £2k, of unpresented cheques issued in excess of six months prior to year end were not written off during the year. 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 Harborough District Council for the year ending 31 March 2016, 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 will provide a template to the Head of Finance and Commercial Services 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.

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.

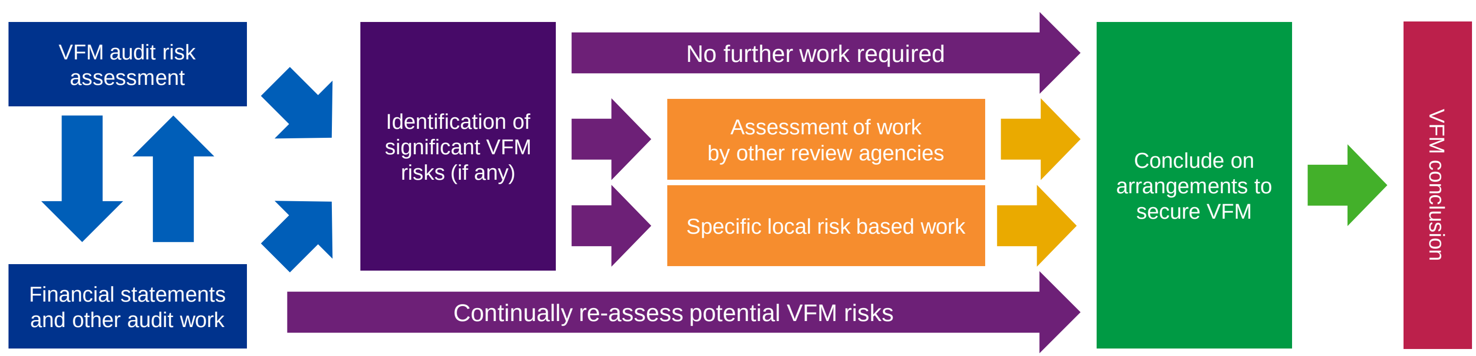
Conclusion

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
Delivery of financial and savings plans	The Authority has continued to make savings in recent years in response to a number of pressures on services and grant funding reductions from central government. For 2015/16, the Authority set a balanced budget and detailed further savings plans of £541k and growth proposals of £1.055m. Strong financial oversight is required to ensure that these plans are achieved. Additionally, the Authority has developed its new medium term financial strategy and will require a Local Plan to be in place by 2017 to ensure full provision of its New Homes Bonus grant. The Authority may not be able to demonstrate that it has effectively secured financial resilience if it does not ensure that these plans are in place, and that the assumptions underpinning them are sound. This is relevant to sustainable resource deployment sub-criteria of the VFM conclusion.	We have reviewed the Authority's draft outturn report for 2015/16, and noted that an underspend of £990k was recorded against the revised 2015/16 budget. Significant contributions to this included net additional planning income of £282k, and unutilised broadband contributions of £250k. Although the Authority has not formally reported on achievement of the growth and savings plans, the reported underspend indicates that the Authority has been successful in achieving income growth and savings. We have reviewed variance reporting included as part of the outturn report, which does not suggest significant issues with growth and savings identified in the budget being met. The Authority's medium term financial strategy was approved by Council on 22 February 2016. This included a number of assumptions and forecasts which underpin the strategy. We reviewed these assumptions and discussed with relevant officers, and have no concerns to report. (Continued on next page…)

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.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Delivery of financial and savings plans		The Authority is also continuing to develop its local plan in line with a revised timetable, following delays in the process due to a need to obtain additional evidence. We met with relevant officers and internal audit, and reviewed relevant reports to Executive, to understand the current status of the local plan. No issues were identified which impact our VFM conclusion.

Appendices

Appendix one

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** 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 Response** 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. **Responsible Officer** Section 151 Officer **Due Date** 31 March 2017

Appendix one

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	**Reconciliation between Cash Receipting system and Academy system for Council Tax and NNDR receipts** The Authority has processes in place to reconcile Ctax 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 Response** 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. **Responsible Officer** Finance Services Manager **Due Date** 1 January 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
3	❸	**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 Response** The Council 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. **Responsible Officer** Finance Services Manager **Due Date** 1 January 2017

Appendix one

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					
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	**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** 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** 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. **Responsible Officer** Partnership Manager **Due Date** Completed 5 September 2016

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** 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. **Responsible Officer** Partnership Manager **Due Date** 31 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	2
Remain outstanding (re-iterated below)	1

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2016
1	3	**Bank reconciliations** As part of our testing of bank reconciliations, we identified that the Authority had a large number of aged un-presented cheques still present on the ledger. This included a total of £53,248 of cheques greater than 12 months old. **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.	**Responsible Officer** Finance Services Manager **Due Date** 30 June 2016	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, totaling £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.

Audit differences

This appendix sets out the audit differences.

One uncorrected audit adjustment was identified.

Additionally, a small 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 Governance and Audit 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

One non-material audit adjustment has been identified relating to Section 31 accrued income of £27,101, which was omitted from the financial statements. Officers have not corrected for this as it does not have a material impact on the financial statements.

The impact of this is:

Impact						
No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1	Cr Taxation and Non Specific Grant Income £27k		Dr Short Term Debtors £27k			Section 31 accrued income of £27,101 omitted from the financial statements.
	Cr £27k		**Dr £27k**			**Total impact of uncorrected audit differences**

Corrected non material audit differences

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 2015/16 (‘the Code’).

These adjustments related to disclosures in the pension liability note, property, plant and equipment note and the collection fund disclosures. None of these changes are significant.

Materiality and reporting of audit differences

For 2015/16 our materiality is £550,000 for the Authority's accounts.

We have reported all audit differences over £25,000 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 £550,000 which equates to around 1.4 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.

Accounts Payable - Data Analytics

Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion.

We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.'

Key Findings

To support our audit approach and to provide insight into the Authority's Non-Pay Expenditure, we have conducted data analytics on the Accounts Payable system for 2015/16 financial year.

We conducted 15 tests looking at various aspects of the payments of invoices and followed up on exceptions flagged as a result of this analysis with management. We have included the output of two of these tests together with KPMG commentary on the following slides.

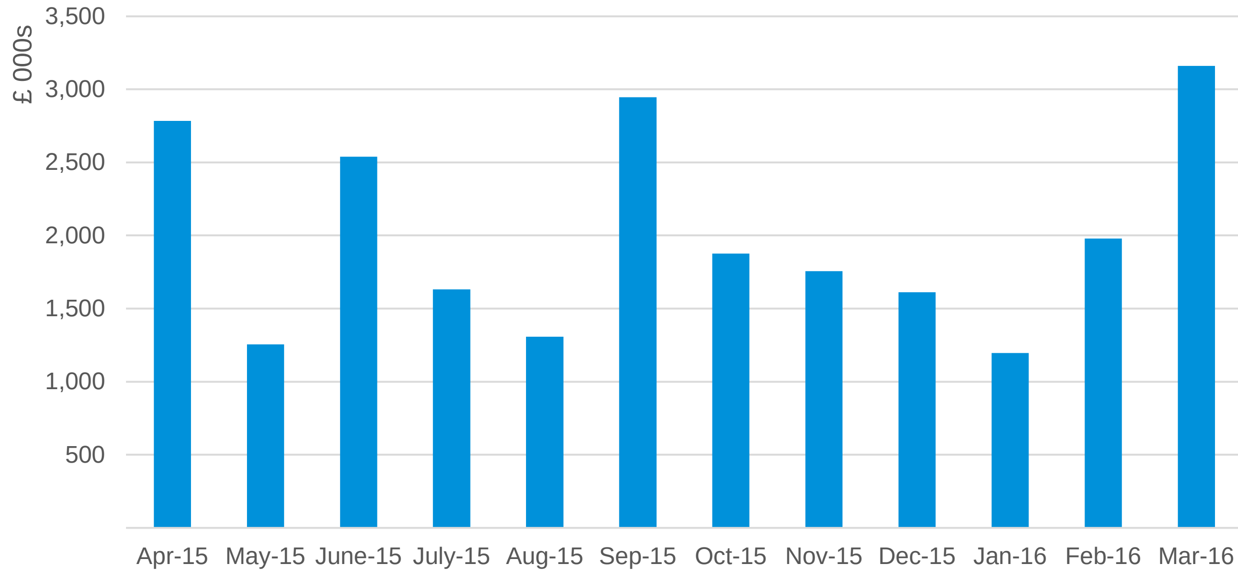
During 2015/16, a total of 5,536 invoices have been recorded through the accounts payable system with a value of £22.1m. This is in line with the prior year, where £22.1m were also recorded, across 5,709 invoices.

Accounts Payable - Data Analytics (cont.)

The graph show the value of invoices by month for 2015/16.

Outliers are attributed to Authority's waste management contractor, FCC Environmental due to the timing of invoices received.

1. Value of invoices by month for 2015/16



Analysis of results

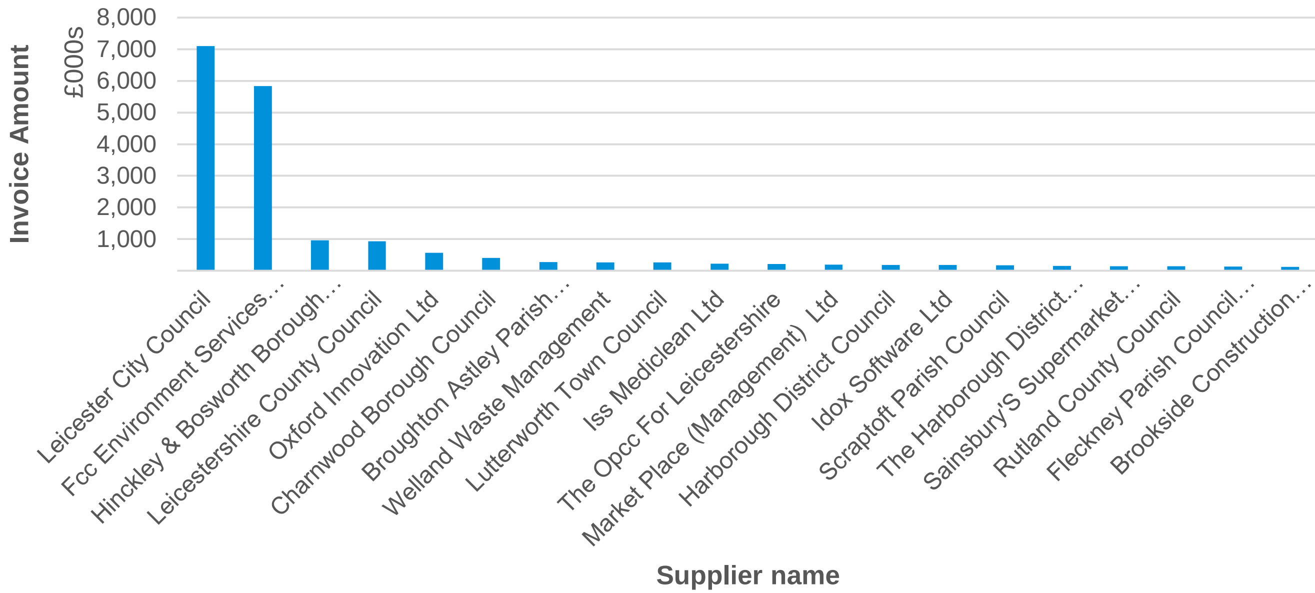
Significant fluctuations in the value of Accounts Payable invoices paid throughout the year could indicate issues in the accurate processing of transactions, or amounts that have been missed entirely. We have reviewed the above information and the detailed data behind it and have the following comments:

April, May, June, August, September, January and March appear to be outliers in terms of the total invoices paid. A review of the underlying data has identified that this is due to the timing of invoices from the Authority's waste management contractor, FCC Environment Services. The underlying amount for each month is consistent, and does not give cause for concern.

Accounts Payable - Data Analytics (cont.)

The chart shows an analysis of the Authority's 20 largest suppliers. The two most significant suppliers are Leicester City Council (£7.1m) relating to the transfer of payroll funds to be distributed, and FCC Environment Services (£5.8m), who provide waste management services to the Authority.

2. Largest suppliers



Analysis of results

The chart shows an analysis of the Authority's 20 largest suppliers. The largest value relates to Leicester City Council, who provide the Authority with payroll services. These invoices relate to the transfer of payroll funds to Leicester City Council, who then distribute them on the Authority's behalf. The other significant supplier identified is FCC Environment Services, who provide waste management services to the Authority. This is consistent with our knowledge of the Authority.

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 *Audit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

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

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

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 Harborough District Council for the financial year ending 31 March 2016, 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.

Audit Fees

Our scale fee for the audit was £41,912 plus VAT (£55,882 in 2014/15). This fee was in line with that highlighted within our audit plan agreed by the Governance and Audit Committee in June 2015. Our scale fee for certification for the HBCOUNT was £14,335 plus VAT (this work is yet to take place – we will report our findings in regard to this and the final fee to Governance and Audit Committee later in the year).

kpmg.com/uk