KPMG

External Audit ISA260 Report 2017/18

Leicester City Council

July 2018

Summary for the Audit and Risk Committee

This document summarises the key findings in relation to our 2017/18 external audit at Leicester City Council ('the Authority').

This report covers both our on-site work which was completed in February/March 2018 and June/July 2018 on the Authority's significant risk areas, as well as other areas of your financial statements, and the control environment in place to support the production of timely and accurate financial statements.

Controls over key financial systems and IT control environment

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. We have the following issues to report to you in relation to controls:

- The Authority has introduced a new payroll system from 1 June 2017. The legacy system was closed down at the end of May 2017 and there was limited access to the data within this system. There were issues with the project management of the system transfer, specifically the decision to migrate systems mid year and the specification and testing of the new payroll system. Our interim audit found that the internal project team and the payroll provider had super user access and at the time, there was no routine review of the access logs and audit trails to gain assurance over the activities of super users. The Authority has since introduced controls to supervise the activities of super users. However, the issues we have identified have all contributed to the risk around the completeness and accuracy of payroll data, and the necessity for additional audit input. We have therefore recommended that more rigorous project management arrangements are put in place for any system changes and that the Authority puts in place measures to gain assurance over the controls at the provider.
- As reported in previous years, although only authorised finance staff can raise journals, and there is a degree of authorisation through granting appropriate permissions when staff take up posts, there is no check that journals processed are complete or accurate. There is also no consistent segregation of duties between the person raising, inputting and approving the journal across the different departments of the council. We have reiterated the prior year recommendation, although we understand that the new system which will be introduced in 2018/19 will address this issue.
- The general ledger system has a relatively high number of generic accounts which are not assigned to a specific user and are for purposes such as training and testing. The majority of the generic accounts are for the generation of sales orders and are necessary in order to identify the location of the order. Some of these accounts were identified as redundant during the audit process. The use of such accounts reduces the accountability of actions performed by users and therefore increases the risk of unauthorised activity being performed on the system. Our further work on these accounts has not identified any such issues, but we recommend that the Authority reviews its use of generic accounts.

Further detail can be found in Appendix 1.

Accounts production

We received a complete set of accounts for audit on 24 May 2018, which is before the statutory deadline of 31 May 2018.

We worked with management to ensure that working paper requirements were understood and aligned to our expectations. We are pleased to report that this has resulted in good quality working papers with clear audit trails.

Summary for Audit and Risk Committee

Financial statements

Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 31 July 2018.

Based upon our initial assessment of risks to the financial statements (as reported to you in our *External Audit Plan 2017/18* and updated during our audit) we identified the following significant risks (excluding those mandated by International Standards on Auditing) – see Pages 11 to 14 for further information:

- **Valuation of PPE** – As a result of our work, we determined that the valuation of land and buildings recognised in 2017/18 is appropriate; and
- **Pensions Liabilities** – As a result of our work, we determined that the valuation of pensions liabilities recognised in 2017/18 is appropriate.
- **Faster close** – The Authority has taken the appropriate steps to bring about faster close and has submitted draft statements by the revised deadline date.
- **New payroll system** – We have undertaken further work beyond the normal payroll programme in order to gain assurance over the legacy system, the migration of data to the new system and over the data in the new system. There are issues to report in terms of the project management of the system change but our controls and substantive work has not identified any material misstatements in the payroll figures in the accounts.

Our audit so far has identified no material adjustments to the figures in the statement of account. There were a small number of minor presentational matters which officers have agreed to amend.

Based on our work, we have raised two recommendations relating to the payroll system and generic accounts. We have reiterated two recommendations around journals authorisation and related parties, which have not yet been implemented from prior years. Details of our recommendations can be found in Appendix 1 and 2.

We are now in the completion stage of the audit and anticipate issuing our completion certificate and Annual Audit Letter in September 2018.

Summary for Audit and Risk Committee (cont.)

Completion

At the date of this report our audit of the financial statements is substantially complete subject to the following areas:

- Audit procedures in relation to IAS 19 (Pensions disclosures);
- Audit procedures in relation to Collection Fund (Council Tax and Business Rates income);
- Completion of journals testing;
- Audit procedures in relation to payroll and non pay expenditure;
- Addressing any residual audit queries arising from our completion procedures;
- General audit file completion and review procedures;
- Final review of amended accounts; and
- Final audit Director review.

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

Value for money arrangements

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

We therefore anticipate issuing an unqualified value for money opinion.

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

— **Financial Resilience -** As a result of reductions in central government funding, and other pressures, the Authority is having to pursue efficiency and savings targets. The Authority has an established reserves strategy, building up reserves over the last three years to allow time to develop the approach to identifying savings. The General Fund stands at £15 million which is the minimum balance recommended by the Director of Finance. The Authority had £172 million in earmarked reserves at the previous year end which was an underlying decline of around £18.3 million in the year. From this year, the Authority plans for reductions in earmarked reserves as it makes investments in transforming services. See further details on page 23.

Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or the public should know about.

We have not identified any matters that would require us to issue a public interest report.

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

Acknowledgements

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

Section one

Control Environment

Organisational and IT control environment

We have identified no significant issues with the Authority's organisational and IT control environment and consider that the overall arrangements that have been put in place are reasonable, other than the issues already identified in the change management process for payroll.

Work completed

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

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

Key findings

We consider that your organisational and IT controls are effective overall but that there is scope for improvement in the management of system changes.

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

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

Organisational and IT control environment

We have identified no significant issues with the Authority's organisational and IT control environment and consider that the overall arrangements that have been put in place are reasonable. However, the issues in respect of the management of the payroll system change have led us to highlight a deficiency in the payroll system controls.

Work completed

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

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

Key findings

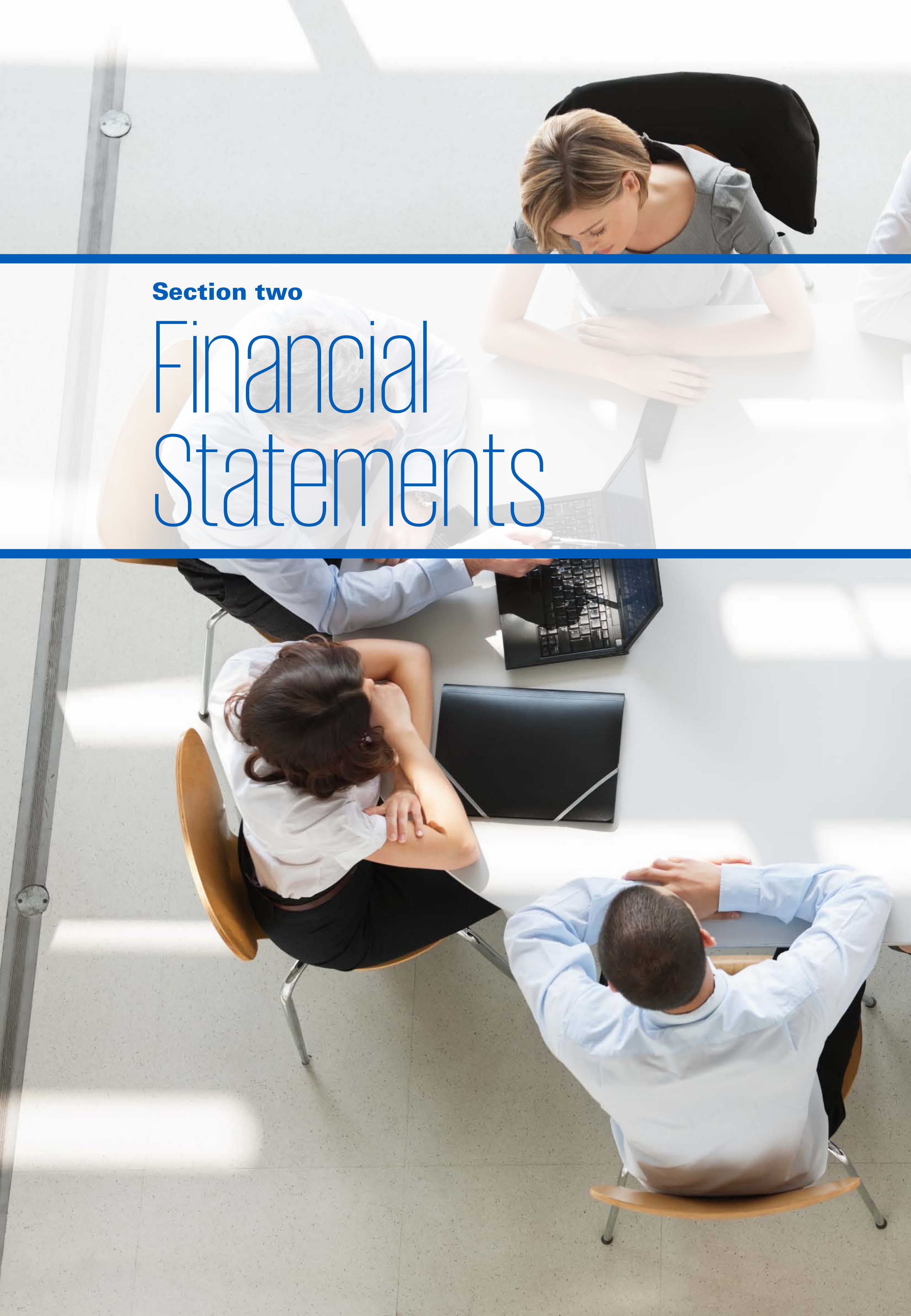
We consider that your organisational and IT controls are effective overall, apart from the controls around payroll.

Aspect of controls	Assessment
Property, Plant and Equipment	3
Cash and Cash Equivalents	3
Pension Assets and Liabilities	3
Non pay expenditure	3
Payroll	2
Business rates income	3
Council tax income	3

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

Section two

Financial Statements



Accounts production and audit process

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

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

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

The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2016/17*.

Accounts practices and production process

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

We consider that the overall process for the preparation of your financial statements is good. We also consider the Authority's accounting practices appropriate.

Going concern

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

Further commentary on the Authority's arrangements in place to secure financial resilience is included at page 23.

Implementation of recommendations

We raised one recommendation in our ISA 260 Report 2016/17 and a number of recommendations were not fully implemented from prior years. Most recommendations have now been fully implemented. Further details are included in Appendix 2.

Accounts production and audit process (cont.)

Completeness of draft accounts

We received a complete set of draft accounts on 24 May 2018 which was in advance of the statutory deadline.

Quality of supporting working papers

We issued our Accounts Audit Protocol to the Chief Accountant in February 2018. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide to support our audit work. This helps the Authority to provide audit evidence in line with our expectations.

We worked with management to ensure that working paper requirements are understood and aligned to our expectations. We are pleased to report that this has resulted in good quality working papers with clear audit trails.

Response to audit queries

We are pleased to report that our agreed turnaround time for dealing with audit queries was achieved by Officers, including those who are not part of the Finance team. As a result of this, our audit work was substantially completed within the timescales expected.

Specific audit areas

We anticipate issuing an unqualified audit opinion on the Authority's 2017/18 financial statements by 31 July 2018. 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 2018, the Authority has reported an underspend against operational budgets of £4.2 million. The General Fund balance has remained constant at £15 million with an underlying reduction in earmarked reserves of £3.4 million.

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

01

Management override of controls

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

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

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

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

02

Fraudulent revenue recognition

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

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

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

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

Specific audit areas

Significant Audit Risks – Authority

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

Risk:	**Valuation of PPE** The Authority owns Property, Plant and Equipment valued at £2,253,458k (2016/17 audited accounts). The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value.
Our assessment and work undertaken:	We reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach. The Authority revalues council dwellings and investment assets annually and revalues 20% of the remaining assets on an annual rolling programme. The Authority also instructs the valuer to undertake additional valuations in the case of, for example, assets where significant capital expenditure is incurred, significant impairments, reclassified assets and suspected increase in market value for assets which fall outside the rolling programme . In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate. We reviewed the revaluation basis and considered its appropriateness. We also assessed the valuer's qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions). There are no matters from our work which we need to draw to your attention. We have set out our view of the assumptions used in relation to accounting for Property, Plant & Equipment at page 15.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk:

Pension Liabilities

The net pension liability represents a material element of the Authority's balance sheet. The valuation of the Authority's pension liability, as calculated by the Actuary is £655,450k (2016/17 audited accounts). The Authority is an admitted body of Leicestershire Pension Fund which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.

The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.

There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.

There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact on the net pension liability accounted for in the financial statements.

Our assessment and work undertaken:

As part of our work we reviewed the controls that the Authority has in place over the information sent directly to the administering authority/Pension Fund. The administering authority/Pension Fund is responsible for submitting the information to the Scheme Actuary. We also liaised with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. We also assessed the controls with respect to the management review of assumptions used in the valuation report and accounts. We also evaluated the competency, objectivity and independence of Hymans Robertson.

We reviewed the appropriateness of the key assumptions included within the valuation, compared them to expected ranges and involved a KPMG Actuary to provide a specialist assessment of those assumptions. We also reviewed the methodology applied in the valuation by Hymans Robertson.

In addition, we reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements.

In order to determine whether the net pension liability has been appropriately accounted for we also considered the valuation of pension assets. We obtained assurance from the Pension Fund auditors, KPMG over the overall value of fund assets. We then liaised with the actuary to understand how these assets are allocated across participating bodies and reperformed this allocation.

We have no issues to report to you as a result of this work.

We have set out our view of the assumptions used in valuing pension assets and liabilities at page 16.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk:

Faster close

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

The Authority was able to produce the accounts by 22nd June in the previous year so these changes represent a significant change to the timetable that the Authority has previously worked to. The time available to produce draft accounts has been reduced by one month and the overall time available for completion of both accounts production and audit is two months shorter than in prior years.

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

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

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

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

Our assessment and work undertaken:

We liaised with officers in preparation for our audit in order to understand the steps that the Authority was taking to ensure it met the revised deadlines. We also advanced audit work into the interim visit where possible, in order to streamline the year end audit work.

We received draft financial statements on 24th May in advance of the statutory deadline of 31 May 2018. We were pleased to note that the quality of the working papers had improved compared to prior years.

There are no matters from our work which we need to draw to your attention.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk:

New payroll system

The Authority has replaced its payroll system in year. There are inherent risks around loss of data and maintenance of its integrity when migrating to new systems, as well as the risk that controls could be compromised. We will review the Authority's arrangements for data migration and the effectiveness of the controls in the new payroll system.

Our assessment and work undertaken:

We have had to undertake significant extra work due to:

- The introduction of a new system two months into the year and the fact that the legacy system was closed down so it wasn't possible to test the system in the usual way
- The requirement to test the migration of data from the old to the new system
- The need to substantively test the new system, since members of staff at the system provider have super-user access rights to the payroll system. The Authority does not have visibility over the controls operated by the supplier to prevent unauthorised changes to the system.

In order to address these issues, we undertook a programme of work designed to provide assurance over the completeness and accuracy of:

- The payroll costs within the legacy system
- The payroll costs transferred between the legacy system and the new system
- The payroll costs in the new system.

The work that we have undertaken has not identified any material issues with the payroll system. The Authority has introduced a new payroll system from 1 June 2017. The legacy system was closed down at the end of May 2017 and there was limited access to the data within this system. There were issues with the project management of the system transfer, specifically the decision to migrate systems mid year and the specification and testing of the new payroll system. Our interim audit found that the internal project team and the payroll provider had super user access and at the time, there was no routine review of the access logs and audit trail to gain assurance over the activities of super users. The Authority has since introduced controls to supervise the activities of super users. However, the issues we have identified have all contributed to the risk around the completeness and accuracy of payroll data, and the necessity for additional audit input. We have therefore recommended that more rigorous project management arrangements are put in place for any system changes and that the Authority puts in place measures to gain assurance over the controls at the provider.

Judgements

We have considered the level of prudence within key judgements in your 2017/18 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

Level of prudence

0	1	2	3	4	5	6
Audit Difference	Cautious		Balanced		Optimistic	**Audit Difference**
			Acceptable Range (1–5)			

Subjective area	2017/18	2016/17	Commentary
Business rate appeal provisions	1	3	Since 2013/14 the Authority has been responsible for a proportion of successful rateable value appeals and has made a provision in the accounts. The Authority's share of the provision for business rate appeals as at 31 March 2018 is £3.9m which includes £4.8m relating to the 2017 valuation (less amounts used in year). Currently there is no available appeals information from the Valuation Office Agency relating to the 2017 Valuation. As a result the Authority have made a cautious judgement by having a provision for appeals relating to the 2017 Valuation. Whilst this meets the International Accounting Standard 37 on provisions, the prudent approach would have been to set aside a reserve for future appeals relating to the 2017 Valuation."
Other provisions	3	3	The Authority's other significant provisions are for insurance claims (£4.9m) and housing benefit subsidy claims (£2.6m). These are largely unchanged from the previous year.
Valuation of pension assets and liabilities	3	3	The reported net balance (£634m), together with assumptions and disclosures for inflation, discount rate, salary growth, life expectancy etc. are consistent with the report from the external actuary.
Property Plant & Equipment:	3	3	PPE is valued at £2,259m and the Authority has utilised qualified valuation experts to provide valuation estimates. We have reviewed the instructions provided and deem that the valuation exercise is in line with the instructions.

Judgements (cont.)

Subjective area	2017/18	2016/17	Commentary
Valuation of pension assets and liabilities	3	3	The Authority continues to use Hymans Robertson to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities small movements in the assumptions can have a significant impact on the overall valuation. For example, a 0.5% decrease in the discount rate would increase the net liability by 10%. The actual assumptions adopted by the actuary fell within our expected ranges as set our below.

Assumption	Actuary Value	KPMG Central Rate	Assessment
Discount rate	2.70%	2.51%	2
Pension increase	2.40%	2.15%	2
Net discount rate	0.30%	0.36%	3
Salary Growth	CPI+1	CPI 0%-2%	3
Life expectancy Current male / female Future male/female	 22.1/24.3 23.8/26.2	 22.1/23.9 23.5/25.4	2

Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2017/18 financial statements following approval of the Statement of Accounts by the Audit and Risk Committee on 25 July 2018.

Audit differences

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

The final materiality (see Appendix 4) for this year's audit was set at £12 million. Audit differences below £600,000 are not considered significant.

We have not identified any material misstatements during the course of the audit.

We identified a number of minor presentational issues that management have also agreed to adjust.

Proposed opinion and audit differences (cont.)

Annual Governance Statement

We have reviewed the Authority's 2017/18 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 and is consistent with other information we are aware of from our audit of the financial statements.

Narrative Report

We have reviewed the Authority's 2017/18 Narrative Report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Completion

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

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

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

Declaration of independence and objectivity

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

In relation to the audit of the financial statements of Leicester City Council for the year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and Leicester City 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.

Management representations

We have provided a detailed declaration in Appendix 6 in accordance with ISA260.

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 Assistant Business Manager Financial Services for presentation to the Audit and Risk Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

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

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

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

Section three

Value for Money Arrangements

Specific value for money risk areas

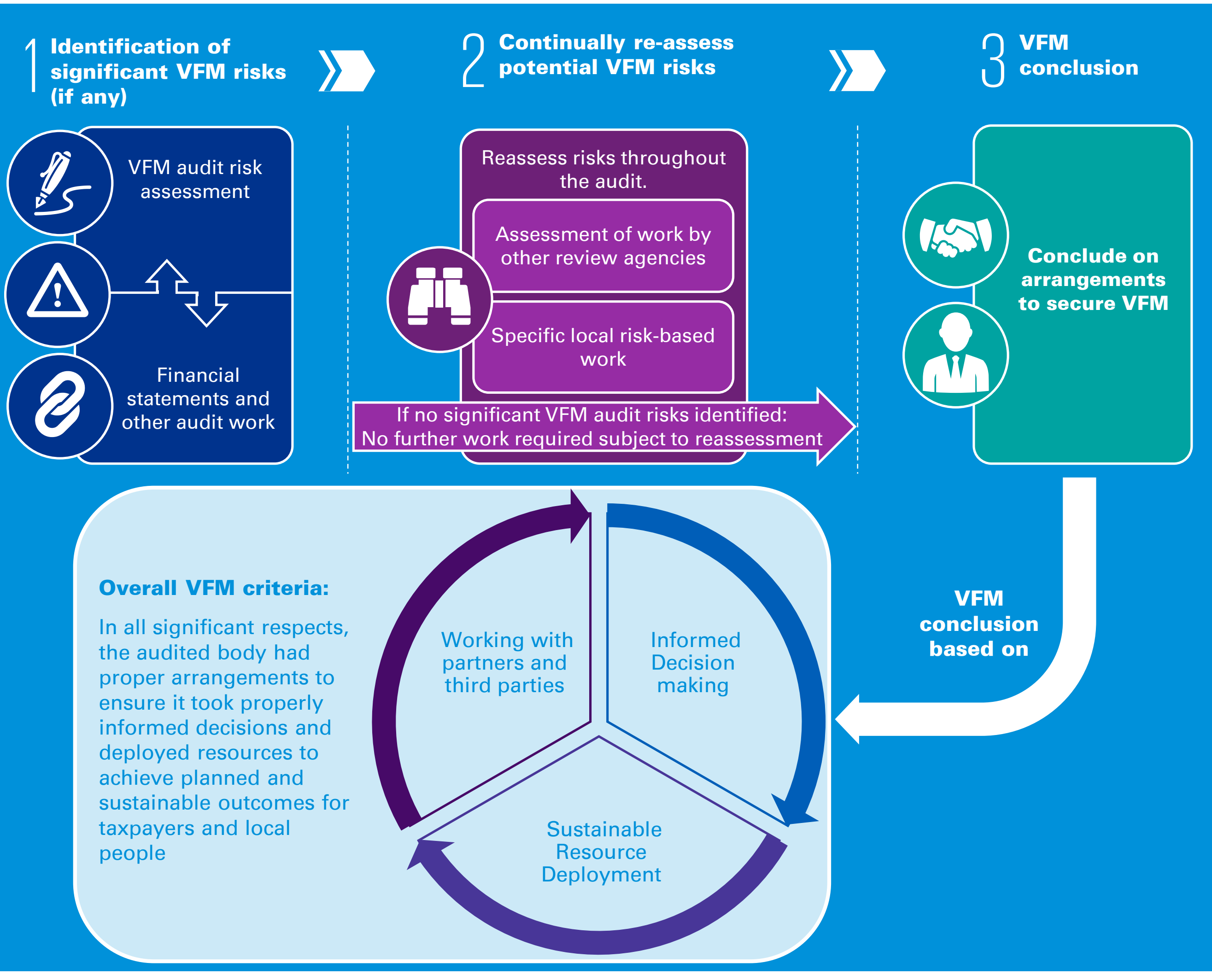
Our 2017-18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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

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

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

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



Specific value for money risk areas (cont.)

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

Applicability of VFM Risks to VFM sub-criteria

VFM Risk	Informed decision making	Sustainable resource deployment	Working with partner and third parties
Financial Resilience	✓	✓	✓

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

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

Specific value for money risk areas (cont.)

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

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.

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

Risk:

Financial resilience

The Authority has recognised the significant risks associated with the reduction in government funding and the uncertainties around future funding streams and has an established reserves strategy, building up reserves over the last three years to allow time to develop the approach to identifying savings. The General Fund stands at £15 million which is the minimum balance recommended by the Director of Finance. The Authority had £172 million in earmarked reserves at year end which was an underlying decline of around £18.3 million in the year. From this year, the Authority plans for reductions in earmarked reserves as it makes investments in transforming services. The Medium Term Financial Strategy (MTFS) 2017 to 2020 shows a gap in funding of over £58 million up to 2019/20, but the Authority acknowledges that there is a higher underlying gap and that, since there is no allowance for inflation, other than pay awards, that the overall gap for 2019/20 could be higher.

Our assessment and work undertaken:

We undertook the following procedures over this significant risk:

— reviewed the Authority's Medium Term Financial Plan, and consider the proposed actions to mitigate factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors;

— reviewed the reported actual delivery of the Authority's savings programme compared to planned savings;

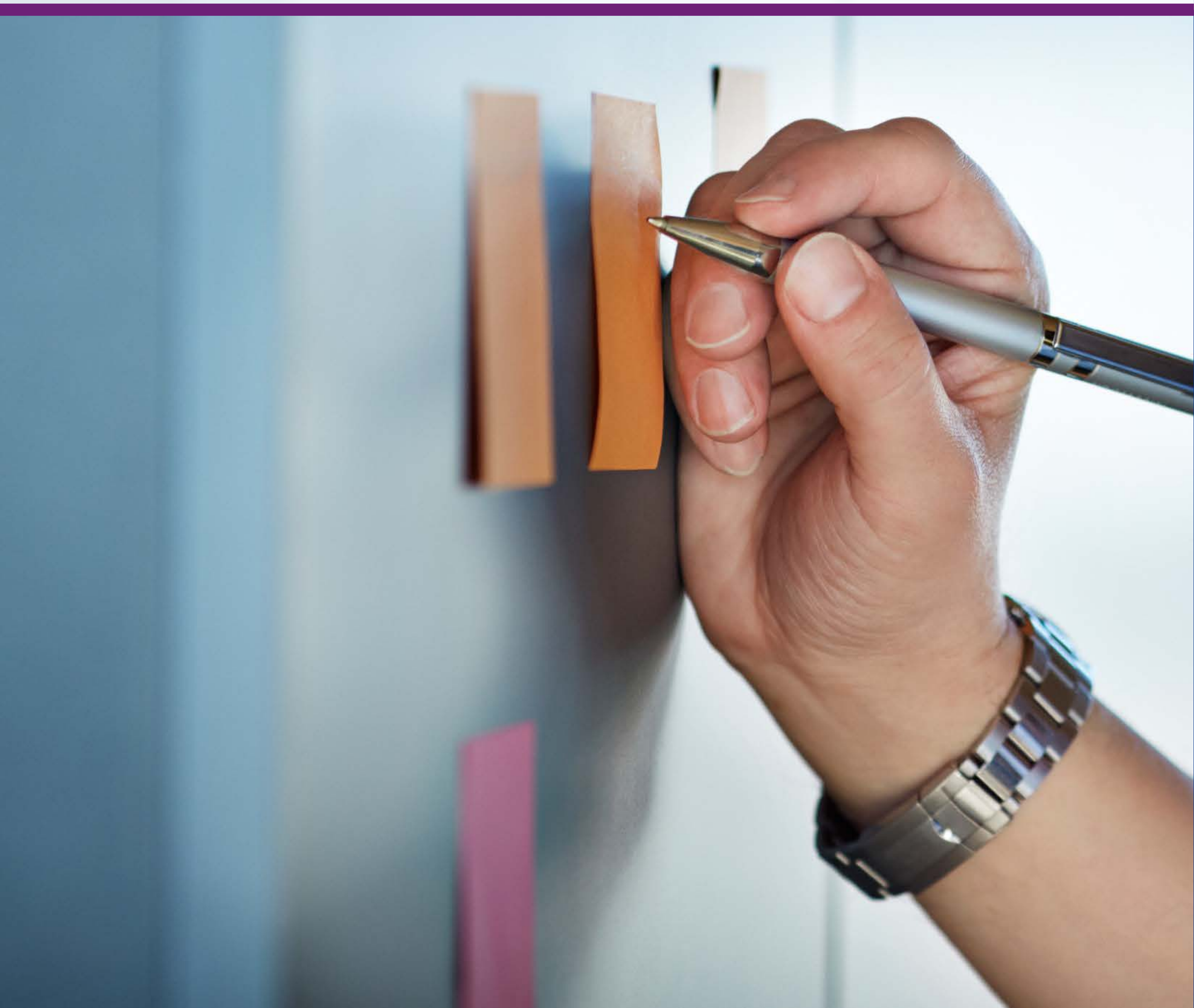
— reviewed the arrangements in place to ensure that overall borrowing levels are sustainable;

— reviewed the budget and savings plan for 2018/19, including any contingencies.

We noted:

- The Authority has reported a surplus against operational budgets which amounted to £4.2 million The balance on the General Fund has remained at £15 million with a reduction in earmarked reserves of £3.4 million.
- The Authority's MTFP projects a balanced budget for 2018/19 and the detailed assumptions within the plan appear reasonable.
- The Authority has acknowledged the severe cost pressures beyond 2018/19 and the significant level of saving s that will need to be made to bridge the gap. The likelihood is that reserves and current savings measures will not be sufficient, particularly if proposed pay increases are not matched by central government funding. The Authority has therefore launched another round of savings reviews with specific targets by department.

Appendices



Appendix 1:

Key issues and recommendations

Our audit work on the Authority's 2017-18 financial statements has 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 have given each recommendation a risk rating and agreed what action management will need to take.

Priority Rating for Recommendations

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

No.	Risk	Issue & Recommendation	Management Response
1	1	The Authority has introduced a new payroll system from 1 June 2017. The legacy system was closed down at the end of May 2017 and there was limited access to the data within this system. There were issues with the project management of the system transfer, specifically the decision to migrate systems mid year and the specification and testing of the new payroll system. Our interim audit found that the internal project team and the payroll provider had super user access and at the time, there was no routine review of the access logs or audit trail to gain assurance over the activities of super users. The Authority has since introduced controls to supervise the activities of super users. However, the issues we have identified have all contributed to the risk around the completeness and accuracy of payroll data, and the necessity for additional audit input. We have therefore recommended that more rigorous project management arrangements are put in place for any system changes and that the Authority puts in place measure to gain assurance over the controls at the provider. ***Risk*** Issues with the system change process and super user access presents a risk around the completeness and accuracy of payroll data.	It is recognised that the process of migration between the old and new payroll system could have been better documented, and external audit should have been involved at an earlier stage. Lessons have been learnt, and are being shared with other system implementation projects to improve the process going forward. Further to this the Council recognise ideally it would have been better to transfer at the beginning of the financial year, but this is not always possible or realistic. Super user access is a necessity during the implementation of new systems and subsequently, but we agree it needs to be strictly controlled. Such access has now been limited to a very small number of users, and an audit report is now produced regularly to check the activities of these users. The actions of super users since Safe was implemented have now been checked and found no discrepancies.

Appendix 1:

Key issues and recommendations

No.	Risk	Issue & Recommendation	Management Response
1	1	***Recommendation*** We recommend that more rigorous project management arrangements are put in place for any future system changes. We also recommend that the Authority seeks third party assurance over the controls in operation at the payroll provider.	Audit of systems where data storage is outsourced (hosted or otherwise) is an established requirement across all sectors of industry, and this is achieved by independent certification of the supplier's arrangements. Government are actively promoting cloud first as the preferred delivery model for public sector IT through Crown Commercial Services. The supplier of the HR/Payroll system is ISO27001 accredited. It is good practice for audits of external data to ensure individual clients' data is sample checked, and that this fact is recorded in their audit reports (the client would receive a copy). We are working with Safe to ensure such arrangements are in place. **Responsible Officer** Craig Picknell – Head of HR **Implementation Deadline** December 2018

Appendix 1:

Key issues and recommendations (cont)

No.	Risk	Issue & Recommendation	Management Response
2	3	The general ledger system has a relatively high number of generic accounts which are not assigned to a specific user and are for purposes such as training and testing. The majority of the generic accounts are for the generation of sales orders and are necessary in order to identify the location of the order. Some of these accounts were identified as redundant during the audit process. The use of such accounts reduces the accountability of actions performed by users and therefore increases the risk of unauthorised activity being performed on the system. ***Risk*** The use of generic accounts reduces the accountability of actions performed by users and therefore increases the risk of unauthorised activity being performed on the system. ***Recommendation*** We recommend that the Authority reviews its use of generic accounts.	This recommendation will be considered as part of the roll out of the new system. ***Responsible Officer*** Amy Oliver – Chief Accountant ***Implementation Deadline*** 1 April 2019

Appendix 2:

Follow-up of prior year recommendations

The Authority has implemented most of the recommendations raised through our previous audit work.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2016/17* and prior year audit recommendations that have not been implemented and re-iterate the recommendations still outstanding.

Number of recommendations that were	
Included in the original report and prior year reports where the recommendation had not been fully implemented in 2016/17	6
Implemented in year or superseded	4
Outstanding	2

No.	Risk	Issue & Recommendation	Management Original Response	Status of Recommendation
1	Medium	**System access reviews** Periodic reviews of the appropriateness of system access are not carried out consistently for the following systems: • Aggresso • Civica (Open Revenues) • Northgate Housing • Northgate Payroll There is a risk of inappropriate or unauthorised access to Authority systems and data **Recommendation** A risk-based review of user access privileges is undertaken on an annual basis	We will review user access privileges and the process for updating access to systems.	**KPMG assessment** An annual review of system access is now completed. Fully implemented

Appendix 2:

Follow-up of prior year recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Original Response	Status of Recommendation
2	Medium	**Leaseholder accounts - housing** Tenants of council flats who exercise their right to buy continue to make contributions towards the general upkeep of the buildings. The leaseholder accounts team in housing had not reconciled the total or the individual balances in their records(balances represent amounts received from former tenants, not yet spent on repairs) to the general ledger at the year end. The balance in the general ledger was understated by approximately £500k as some amounts had been incorrectly posted to income. The Authority has made a provision in the accounts to cover the shortfall. **Recommendation** Reconcile the total and individual leaseholder balances held on the Northgate housing system to the balances held on the general ledger on a monthly basis. Investigate any discrepancies	Management accepts this recommendation in respect of the need for more frequent and comprehensive reconciliations. The exact frequency will need to be determined in line with business requirements, but will be regular and will ensure that the position is correctly reconciled and maintained.	**KPMG assessment** Leaseholder accounts are now reconciled on an annual basis. Fully implemented

Appendix 2:

Follow-up of prior year recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Original Response	Status of Recommendation
3	Medium	**Related party disclosure** This recommendation has been in our ISA 260 since 2012/13. **Issue** In 2012/13 and 2013/14 we reported that related party declarations had not been returned by three councillors and six councillors respectively, with the impact that there may be significant matters undisclosed. For 2014/15, ten councillors did not return their annual declarations. In 2015/16 and 2016/17 two councillors had not returned their annual declaration, of which one has not done so have at least two years **Recommendation** Publish the names of members who fail to return related party declarations. The Chair of the Audit and Risk Committee may wish to consider what further actions are available	We have repeatedly chased these up. This was an improvement from the previous year. We feel that further steps are a matter for the Audit and Risk Committee but will be able to facilitate any actions required.	**KPMG assessment** One councillor has not retuned his annual declaration, which he has not done for at least three years. Not implemented **Management July 2018 response** Management have been persistent in their attempts to obtain the outstanding disclosure and have no option but to seek the views of the Audit & Risk committee.

Follow-up of prior year recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Original Response	Status of Recommendation
4	Medium	**Journal controls** This recommendation has been in our ISA 260 since 2012/13. **Issue** Although only authorised finance staff can raise journals, and that there is a degree of authorisation through granting appropriate permissions when staff take up posts, there is no check that journals processed are complete or accurate. **Recommendation** Our recommendation was to produce a report of non-routine journals raised by finance staff, and provide evidence that journals are authorised by a senior member of the finance team. This was agreed by officers.	We have implemented a control whereby system reports on higher-value journals are available to colleagues at any time, and collated reports are occasionally prepared and distributed. As noted last year, a workflow-based system of authorisation for journals will be a far superior solution to this issue and is being incorporated into the development of the new finance system.	**KPMG assessment** There is still no established process for authorising journals. However we understand that a process for authorising journals will be incorporated in the new finance system. Not implemented **Management July 2018 response** In addition to our current controls the Council's new Finance System will implement a workflow based system of authorisation of journals.

Appendix 2:

Follow-up of prior year recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Original Response	Status of Recommendation
5	**Medium**	**Leavers - Access removal (Network)** We identified 35 leavers (out of a total of 839) who have accessed their Active Directory account after leaving the organisation. The existence of enabled user accounts of leavers increases the risk of these user accounts being exploited to gain unauthorised access to the system by users who are no longer employed by the Authority and/or by current users should they gain access to leaver accounts. In the event such accounts are used, it would be difficult to establish accountability for subsequent actions carried out. There is therefore a significant risk of damage or disruption to systems or data, as well as potentially fraudulent activity. Where users change job roles, there is a risk that they retain an inappropriate level of access which is not commensurate with the requirements of their new job role. **Recommendation** When a user ceases employment, to prevent the unnecessary risk of inappropriate or fraudulent activity, user access should be revoked from all layers (application, network, and database) through which access to programs and data is possible. This should be performed immediately following each user's leaving date. Where possible, last logon dates should be retained. Additional reviews may need to be performed to complement the leaver process to ensure that the designed process is operating effectively and any inappropriate access is identified and removed. Where systems permit this, such controls should be automated to reduce the risk of control failures.	It is the manager's responsibility to inform IT of changes to a user's employment status. For leavers, there are clear guidelines to follow, which are emailed to the manager from the HR team as part of an exit checklist. The guidelines clearly inform the manager of the importance of deleting the accounts and how to do it. The guidelines link directly to the appropriate form on the self-help website where the manager can request the deletion of the leavers account. On receiving this request, we automatically disable the account for 90 days. If after 90 days there has been no further requests relating to the account it is automatically deleted. We also proactively have a monthly leavers report from the HR system that we script and place all users on the list that have not already been deleted and disable them. We also look for accounts with no activity for 90 days and move them to an on hold container. As for role changes -this is also the responsibility of the manager to inform us. However in this case, there are no prompts for the manager to do so.	**KPMG assessment** A formal account deletion process is in place which outlines a step-by-step guide to deleting leaver accounts. Fully implemented

Appendix 2:

Follow-up of prior year recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Original Response	Status of Recommendation
6	Medium	**Passwords -Authentication (Network)** Windows Active Directory is not configured to force users to change their passwords after a specified number of days. If users are not forced to change their password regularly, there is a risk that they may have their accounts compromised, which could impact upon the integrity of the system. **Recommendation** Password expiry settings should be configured to ensure that user account passwords are changed on a regular basis. It is recommended to have a password maximum age of 90 days.	CESG (the Information Security Arm of GCHQ) recommends that we don't change passwords frequently as it makes them less secure (see article here: https://www.cesg.gov.uk/articles/problems-forcing-regular-password-expiry). If a user's password had been compromised on a third party website a hacker wouldn't be able to use it from outside the Authority as they would also need access the second factor token.	**KPMG assessment** The password policy has been updated and the finding has been remedied. Fully implemented

Appendix 3:

Audit differences

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

A number of minor amendments focused on presentational improvements have also been made to the 2017-18 draft financial statements. The Finance team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Adjusted audit differences

Adjusted audit differences were mainly presentational and there were no material audit adjustments.

Unadjusted audit differences

We have not identified any unadjusted audit differences.

Appendix 4:

Materiality and reporting of audit differences

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

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

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

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

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

Materiality for the Authority's accounts was set at £12 million which equates to around 1 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit and Risk Committee

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

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

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

In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £600,000 for the Authority.

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

Required communications with the Audit and Risk Committee

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

Required Communication	Commentary
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2018.
Adjusted audit differences	We have identified no material adjusted differences as a result of the audit of the Authority's financial statements.
Unadjusted audit differences	We have identified no unadjusted differences as a result of our audit of the Authority's financial statements.
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit and Risk Committee	There were no matters to report arising from the audit that, in our professional judgement, are significant to the oversight of the financial reporting process.
Control deficiencies	We have set out our assessment of the Authority's internal control environment, including details of significant deficiencies identified, in Section one of this report (see page 1). We have identified no deficiencies in internal control of a lesser magnitude than significant deficiencies.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the Authority's Members or officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to our audit report.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.

Appendix 5:

Required communications with the Audit and Risk Committee

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

Required Communication	Commentary
Other information	No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement. These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.
Our declaration of independence and any breaches of independence	No matters to report. The engagement team (and others in the firm, as appropriate), have complied with relevant ethical requirements regarding independence. See Appendix 6 for further details.
Accounting practices	Over the course of our audit, we have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate. We have set out our view of the assumptions used in valuing pension assets and liabilities at page 16.
Significant matters discussed or subject to correspondence with management	There were no significant matters arising from the audit which were discussed, or subject to correspondence, with management.
Key audit partner(s)	We identified each key audit partner at page 21 in our *External Audit Plan 2017-18* presented to you in May 2018.
Independence of external experts engaged by KPMG and non-KPMG auditors	We have not engaged external experts / non-KPMG auditors for the performance of any aspects of our audit.
Communications with audit committee and management	We have described the nature, frequency and extent of communication with the Audit and Risk Committee and management at page 19 in our *External Audit Plan 2017-18* presented to you in May 2018.
Scope and timing of the audit	We have described the scope and timing of the audit at page 19 in our *External Audit Plan 2017-18* presented to you in May 2018.
Audit methodology	Our audit methodology is described at pages 1 and 2 in this report.

Appendix 5:

Required communications with the Audit and Risk Committee

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

Required Communication	Commentary
Valuation methods	On page 11 and 12 we report the valuation methods applied to the items in the financial statements and the impact of any changes.
Going concern assessment	There are no significant matters affecting the entity's ability to continue as a going concern.
Requested explanations and documents	No matters to report. All requested explanations and documents were provided by management.
Materiality	Quantitative materiality applied to the audit of the financial statements as a whole and materiality for balances/disclosures affected by qualitative factors is set out at page 10 in our *External Audit Plan 2017-18* presented to you in May 2018. See also Appendix 4 of this report.
Non-compliance with laws and regulation or articles of association	No actual or suspected non-compliance with laws and regulation or articles of association were identified during the audit
Non-KPMG component auditors	There is no work of non KPMG component auditors to report to you.
Management's approach to consolidation	Management's approach to consolidation is consistent with the requirements of the Code. The Authority has no material subsidiaries.

Appendix 6

Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF LEICESTER CITY COUNCIL

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

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

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

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

General procedures to safeguard independence and objectivity

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

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

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

Appendix 6:

Declaration of independence (cont.)

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority and its controlled entities for professional services provided by us during the reporting period. We have detailed the fees charged by us to the authority and its controlled entities for significant professional services provided by us during the reporting period in Appendix 6, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017/18 £	2016/17 £
Audit of the Authority	**146,603**	**146,603**
Audit fee in relation to additional work	**TBC**	
Total audit services	**146,603**	**146,603**
Mandatory assurance services	**52,785**	**58,505**
Other assurance services	**10,500**	**10,700**
Total assurance services	**63,285**	**69,205**

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. Our non audit fees are 7.2% of the audit fee, housing benefits fees being excluded form the calculation as this is a mandated service under the audit contract. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

The audit fee in relation to additional work relates to the likely further fee in respect of the work we have had to undertake on payroll, which is outside the normal audit process. This fee will be subject to agreement by the PSAA.

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

Declaration of independence (cont.)

Analysis of Non-audit services for the year ended 31 March 2018

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Mandatory assurance services				
Grant Certification – Housing Benefit Subsidy Return	The nature of this mandatory assurance service is to provide independent assurance on the return. As such we do not consider it to create any independence threats.	Fixed Fee	52,785	59,237
Non mandatory assurance services				
Certification of the Pooling of Housing Capital Receipts Return	This engagement is entirely separate from the audit through a separate engagement letter. The nature of this work is to review the return in line with guidance. Therefore, it does not impact on our opinion and we do not consider that the outcome of this work will be a threat to our role as external auditors.	Fixed Fee	5,000	5,000
Teachers' Pensions Return	This engagement is entirely separate from the audit through a separate engagement letter. The nature of this work is to review the return in line with guidance. Therefore, it does not impact on our opinion and we do not consider that the outcome of this work will be a threat to our role as external auditors.	Fixed Fee	5,500	5,500

Appendix 6:

Declaration of independence (cont.)

Independence and objectivity considerations relating to other matters

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

Confirmation of audit independence

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

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

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

KPMG LLP

Appendix 6:

Audit fees

As communicated to you in our *External Audit Plan 2017-18*, our scale fee for the audit is £146,603 plus VAT (£146,603 in 2016/17), which is consistent with the prior year. However, there is likely to be a further fee in respect of the work we have had to undertake on payroll, which is outside the normal audit process. This fee will be subject to agreement by the PSAA.

Our work on the certification of the Authority's Housing Benefit Subsidy return is planned for August 2018. The planned scale fee for this is £59.237 plus VAT (£52,785 in 2016/17). See further details below.

Component of the audit	2017/18 Planned Fee £	2016/17 Actual Fee £
Accounts opinion and value for money work		
PSAA Scale fee Leicester City Council	146,603	146,603
Total audit services	**146,603**	**146,603**
Mandatory assurance services		
Housing Benefits Certification (work planned for August 2018)	59,237	52,785
Total mandatory assurance services	**59,237**	**52,785**
Grand total fees for the Authority	**205,840**	**199,388**

All fees quoted are exclusive of VAT.

The key contacts in relation to our audit are:

John Cornett
Director

0116 256 6064
john.cornett@kpmg.co.uk

Helen Brookes
Manager

0115 954 4476
helen.brookes@kpmg.co.uk
r

kpmg.com/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. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.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 John Cornett, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk. 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 3HZ.

CREATE: CRT086281A