



# Annual Audit Letter 2015/16

**Leicester City Council**

27 October 2016



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This Annual Audit Letter summarises the outcomes from our audit work at Leicester City Council in relation to the 2015/16 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

<b>VFM conclusion</b>	<p>We issued a qualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2015/16 on 29 September 2016. This means we are satisfied that during the year that Authority had proper arrangements for informed decision making, sustainable resource deployment and working with partners and third parties except for sustainable resource deployment in respect of children's services.</p> <p>In arriving at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.</p>
<b>VFM risk areas</b>	<p>Our initial risk assessment took into account the Authority's key business risks which are relevant to our VFM conclusion. We identified the following VFM risks in our External audit plan 2015/16 issued in March 2016:</p> <ul style="list-style-type: none"> <li>— Implementation of OFSTED's recommendations following their review of children's services; and</li> <li>— Financial resilience.</li> </ul> <p><b>Children's services</b></p> <p>In March 2015, OFSTED rated the quality of children's services as inadequate. The Authority has made good progress in addressing the recommendations raised by OFSTED: out of 24 recommendations addressed to the Authority, 15 recommendations have been signed off by Leicester City Children's Improvement Board (LCCIB) as having all key actions completed. The remaining 9 recommendations are all in progress; none is delayed or stalled.</p> <p>There is also a "Dashboard of key indicators" that tracks progress against a range of measures. This presents a more mixed picture: the dashboard presented to the LCCIB for September 2016 shows 4 out of 19 measures still assessed as inadequate, with a further 3 still requiring improvement.</p> <p>OFSTED have carried out interim reviews (but only of parts of the service originally inspected). Their feedback acknowledges the progress made to date but also indicates that the effectiveness of the service is not yet at the desired level. A formal re-inspection by OFSTED is not scheduled to take place for two years from the date of the original inspection.</p> <p>There is evidence that the Authority is taking on board the comments made by OFSTED from their interim reviews, and is working closely with other 'good' local authorities, external agencies and partners to deliver children's services. Findings from OFSTED monitoring visits and external reviews will be incorporated into a refreshed Improvement plan.</p> <p>Despite the progress that has been made in responding to OFSTED recommendations and in making improvements to the service, the Authority cannot yet demonstrate that, in respect of children's services, sufficient progress has been made to allow us to conclude that it has proper arrangements in place to ensure it has deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We therefore issued a qualified VFM conclusion to this effect.</p> <p><b>Financial resilience</b></p> <p>The Authority has reviewed its level of ongoing revenue expenditure and has concluded that, by 2019/20, expenditure is expected to exceed income by £55 million per annum.</p> <p>We reviewed the Authority's spending review programme which identifies areas where savings can be achieved. We examined evidence to support savings achieved to date, and to support potential savings as broken down into individual savings schemes.</p> <p>Going forward from 2019/20, our estimate is that, at best there is an annual shortfall of £11 million yet to be addressed. The worst case is that planned savings will not be achieved which will leave a funding gap of £50 million.</p> <p>As there is still time to address the shortfall, we concluded that the Authority has arrangements in place to address the funding shortfall that will crystallise in 2018/19.</p>

## Section one

# Headlines (cont)

This Annual Audit Letter summarises the outcomes from our audit work at Leicester City Council in relation to the 2015/16 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

<b>Financial statements audit</b>	<p>We identified the following key financial statements audit risks in our 2015/16 External Audit Plan presented to you in March 2016</p> <ul style="list-style-type: none"> <li>— Change of banking arrangements from Co-op to Barclays;</li> <li>— Management override of controls; and</li> <li>— Fraudulent revenue recognition.</li> </ul> <p>Professional standards require us to consider the latter two risks as standard risks for all organisations. There were no matters of any significance arising as a result of our audit work in these key risk areas.</p> <p>The Authority has good processes in place for the production of the accounts and good quality working papers. However the Authority has not fully implemented all of the recommendations in our ISA 260 Report 2014/15 relating to the financial statements. Details are set out in Appendix 3.</p> <p>Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales..</p>
<b>Audit opinion</b>	<p>We issued an unqualified opinion on the Authority's financial statements on 29 September 2016. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.</p>
<b>Annual Governance Statement</b>	<p>We reviewed the Annual Governance Statement and concluded that it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.</p>
<b>Whole of Government Accounts</b>	<p>We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements.</p>
<b>Certificate</b>	<p>Following completion of our work on the Authority's Whole of Government Accounts pack, we issued our certificate on 20 October 2016. The certificate confirms that we have concluded the audit for 2015/16 in accordance with the requirements of the Local Audit &amp; Accountability Act 2014 and the Code of Audit Practice.</p>

## Section one

# Headlines (cont)

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### Audit fee

#### Audit services

Our scale fee for the audit is £146,603 excluding VAT. This fee is in line with that highlighted within our audit plan agreed by the Audit and Risk Committee in March 2016. Our scale fee for certification of housing benefits subsidy is £58,505 excluding VAT

Our final fee for the 2015/16 audit of the Authority was £153,391. This compares to a planned fee of £146,603. The reasons for this variance are:

- Additional work, as set out in our Audit Plan, in respect of specific VFM conclusion risks regarding Children's Services and financial resilience; and
- additional work, which was not allowed for in our initial plan, namely a review of the new housing rents system that was implemented in January 2016.

Our fees are still subject to final approval by Public Sector Appointments Ltd (PSAA).

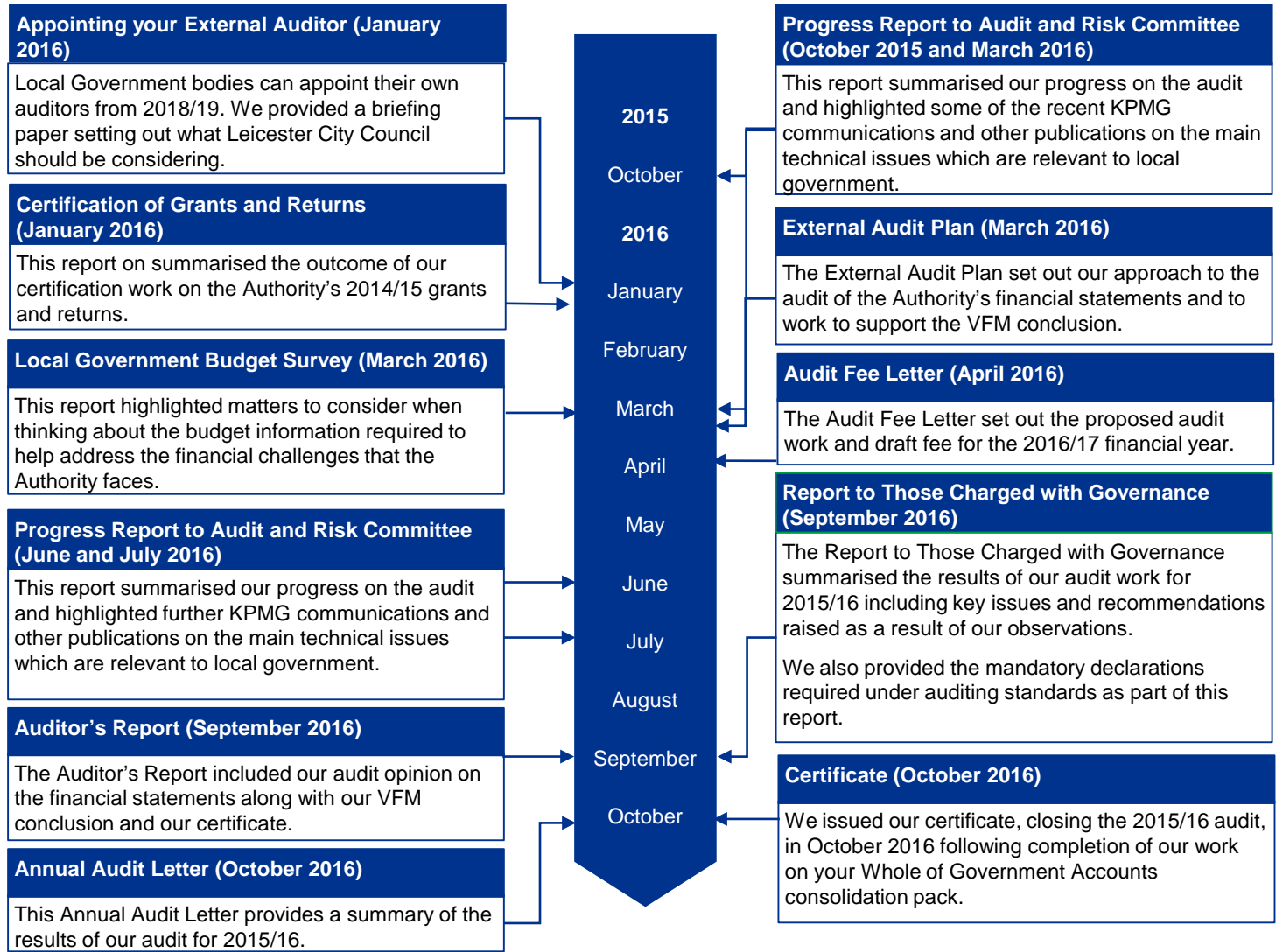
#### Non-audit services

During 2015/16 we certified three returns completed by the Authority, for a total fee of £12,286 excluding VAT. We have not provided any other non-audit services in the year.

Further detail is contained in Appendix 2.

# Appendix 1: Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter.



# Appendix 2: Audit fees

This appendix provides information on our final fees for the 2015/16 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2015/16 planned audit fee, and the other fees charged in the year.

### External audit

Our final fee for the 2015/16 audit of the Authority was £153,391. This compares to a planned fee of £146,603. The reasons for this variance are:

- Additional work, as set out in our Audit Plan, in respect of specific VFM conclusion risks regarding Children’s Services and financial resilience; and
- additional work, which was not allowed for in our initial plan, namely a review of the new housing rents system that was implemented in January 2016.

Our fees are still subject to final approval by PSAA.

### Certification of grants and returns

Under our terms of engagement with PSAA we undertake prescribed work in order to certify the Authority’s housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in January 2017.

### Other services

We charged the following fees for additional audit-related services for our Accountant’s Reports relating to 2014/15 Returns, which are outside of PSAA’s certification regime.

Return	Fee excluding VAT £
Pooling of housing capital receipts return	5,786
Teachers pensions agency return	3,500
Homes and communities compliance reporting	3,000

We have not provided any other non-audit services in the year.

# Appendix 3: Prior year outstanding recommendations

The Authority has not fully implemented all of the recommendations in our ISA 260 Report 2014/15.

- 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.
- We rated all the issues as having an important effect on internal controls but not needing immediate action.

Number of recommendations that were:	
Included in original report	3
Fully Implemented in year or superseded	0
Remain outstanding (re-iterated below)	3

No.	Issue and recommendation	Management response/ responsible officer in 2014/15 ISA Report	Status and management response as at September 2016
1	<p><b>Notes to the Financial Statements</b></p> <p>Non-trivial amendments were made to a number of notes in the financial statements. These were mainly of a presentational nature.</p> <p>The notes form part of the statements by giving details about entries in the primary statements. It is therefore important that the entries in the notes are fairly stated.</p> <p><b>Recommendation</b></p> <p>Ensure the 2015/16 accounts closedown timetable includes a robust quality review of the notes.</p>	<p><b>Principal Accountant – Corporate Accountancy (comments):</b></p> <p>Management accept this recommendation. A plan of work to deliver this objective is in place.</p>	<p>Partially implemented. The number of amendments to notes this year have reduced but there is scope for improvement.</p> <p><b>Principal Accountant – Corporate Accountancy (comments):</b></p> <p>Since 2014/15, we have developed a more detailed project plan for the preparation of the statement of accounts. We also introduced weekly closedown meetings for key members of staff to try and ensure that deadlines were met or managed. This timetable was successful in facilitating earlier completion of many tasks and therefore allowed more time for the content of the accounts to be reviewed and cross-checked. We are continuing to build on this process for future years.</p>



# Appendix 3: Prior year outstanding recommendations (cont.)

<p>The Authority has not fully implemented all of the recommendations in our <i>ISA 260 Report 2014/15</i>.</p>	No.	Issue and recommendation	Management response/ responsible officer in 2014/15 ISA Report	Status and management response as at September 2016
	2	<p><b>Related party disclosure</b></p> <p>Assurance about related party transactions relates to the year of account and it is important that declarations are received from all members in position for that year.</p> <p>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.</p> <p><b>Recommendation</b></p> <p>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</p>	<p><b>Principal Accountant – Corporate Accountancy (comments):</b></p> <p>Management feel that the response to this recommendation is a matter for the Audit &amp; Risk Committee but is able to support any action the Committee may feel it appropriate to take.</p> <p>Minutes of the Audit and Risk Committee meeting on 29 September 2015 record “The Chair expressed support for the recommendation to publish the names of members who failed to return related party declarations.”</p>	<p>Not implemented. Two councillors have not returned their annual declaration for 2015/16, one of whom has not done so for at least two years.</p> <p><b>Principal Accountant – Corporate Accountancy (comments):</b></p> <p>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 &amp; Risk Committee but we will be able to facilitate any actions required.</p>

# Appendix 3: Prior year outstanding recommendations (cont.)

<p>The Authority has not fully implemented all of the recommendations in our <i>ISA 260 Report 2014/15</i>.</p>	No.	Issue and recommendation	Management response/ responsible officer in 2014/15 ISA Report	Status and management response as at September 2016
	3	<p><b>Journal controls:</b></p> <p>For the last three years we reported that 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.</p> <p>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.</p>	<p><b>Principal Accountant – Corporate Accountancy (comments):</b></p> <p>There is still no established process for authorising journals.</p> <p>The longer-term solution to this issue will be a system-based authorisation workflow process – in order to meet the recommendation, we are including this in our specification of needs from the Council's future finance system, for which a procurement exercise is currently underway. Prior to the introduction of a new system, a number of options have been identified for controlling journals, which will be presented to the Finance Management Team. Any additional controls adopted will be incorporated into the Council's processes and rules as required.</p>	<p>Not implemented. There is still no established process for authorizing journals.</p> <p><b>Principal Accountant – Corporate Accountancy (comments):</b></p> <p>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.</p>



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