

Annual Audit Letter 2017/18

Leicester City Council

January 2019



A group of business professionals in a meeting, looking at documents. The image is a close-up, slightly blurred, showing several people in business attire. A woman with dark hair is on the left, looking down. A man with grey hair is in the center, also looking down. Another woman is on the right, partially visible. They are all looking at documents or laptops. The background is out of focus.

Section one

Summary for Audit and Risk Committee

Summary for Audit and Risk Committee

This Annual Audit Letter summarises the outcome from our audit work at Leicester City Council (“the Authority”) in relation to the 2017/18 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.

Audit opinion

We issued an unqualified opinion on the Authority’s financial statements on 14 December 2018. 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.

Financial statements audit

Our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole. Materiality for the Authority’s accounts was set at £12 million which equates to around one percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

We report to the Audit and Risk Committee any misstatements of lesser amounts, other than those that are “clearly trivial”, to the extent that these are identified by our audit work. In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £0.6 million.

We have identified no audit adjustments. The statutory deadlines for both the unaudited and audited accounts moved forward by one and two months respectively this year, and officers recognised the additional pressures that this would bring and took appropriate action. The working papers provided for this year have been of a good standard with clear audit trails. The agreed turnaround time for dealing with audit queries was achieved by Officers, including those who are not part of the Finance team. We thank the Finance team for their co-operation throughout the visit.

Our audit work was designed to specifically address the following significant risks:

- **Management Override of Controls** – 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;
- **Valuation of PPE** – The Authority revalues council dwellings annually and revalues 20% of the land and buildings assets on an annual rolling programme. In relation to assets which have been revalued during the year we reviewed the accounting entries and revaluation basis to ensure their appropriateness. We also reviewed the Authority’s methodology for assets that have not been revalued during the year to ensure the carrying value of those assets are materially the same as their year end fair value. We assessed the valuer’s qualifications, objectivity and independence and reviewed the methodology used;
- **Pensions Liabilities** – The valuation of the Authority’s pension liability; as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We reviewed the processes in place to ensure accuracy of data provided to the Actuary and considered the assumptions used in determining the valuation;
- **Faster Close** – The bringing forward of the national year-end timetable represented a risk to the completion of the audit by the 31 July deadline; and
- **New Payroll System** – The Authority has replaced its payroll system in year. We reviewed the Authority’s arrangements for data migration and the effectiveness of the controls in the new payroll system. We also undertook a programme of work designed to provide assurance over the completeness and accuracy of the payroll costs recorded in the system.

Section one:

Summary for Audit and Risk Committee (cont.)

We did not identify any evidence of material misstatement as a result of our audit work on these significant risk areas.

Other information accompanying the financial statements

Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.

Whole of Government Accounts

We have reviewed the consolidation pack which the Authority has prepared to support the production of Whole of Government Accounts by HM Treasury and have confirmed to the National Audit Office that we have no matters to report.

Value for Money conclusion

We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2017/18 on 14 December 2018. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources. To arrive 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.

Value for Money risk areas

We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks. Our work identified the following significant 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 Medium Term Financial Strategy 2017 to 2020 (MTFS) 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. We reviewed the arrangements the Authority has in place for ensuring its continuing financial resilience.

We were satisfied that there were adequate arrangements in place during 2017/18 and there were no significant matters relating to this risk area which prevented us from giving an unqualified VFM conclusion.

High Priority Recommendations

We raised one high priority recommendation as a result of our 2017/18 work:

- **New Payroll System** – This relates to more rigorous project management arrangements being put in place for any future system changes and seeking third party assurance over the controls in operation at the payroll provider.

This is detailed in Appendix 1 together with the action plan agreed by management.

Section one:

Summary for Audit and Risk Committee (cont.)

Certificate

We issued our certificate on 14 December 2018. The certificate confirms that we have concluded the audit for 2017/18 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.

Audit fee

Our scale fee for 2017/18 was £146,603, excluding VAT (2017: £146,603). However there will be a further fee in respect of additional work completed over the new payroll system and property valuation in 2017/18, which was outside of the normal audit process. This further fee will be agreed with the Director of Finance. Further detail is contained in Appendix 3.

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 if 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.



Appendices



Appendix 1:

High risk recommendations

This appendix summarises the high risk recommendations raised as a result of our audit.

High risk recommendations are defined as those 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.

Details of lower risk recommendations can be found in our *ISA260 Report 2017/18*.

No.	Risk	Issue & Recommendation	Management Response
1	1	<p>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 the 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.</p> <p>Risk</p> <p>Issues with the system change the process and super user access presents a risk around the completeness and accuracy of payroll data.</p> <p>Recommendation</p> <p>We recommend that more rigorous project management arrangements are put in place for any future system changes.</p> <p>We also recommend that the Authority seeks third party assurance over the controls in operation at the payroll provider.</p>	<p>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 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.</p> <p>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.</p> <p>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 ISO72001 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.</p> <p>Responsible Officer</p> <p>Agreed : Craig Picknell – Head of HR</p> <p>Implementation Date</p> <p>December 2018</p>

Appendix 2:

Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter. These reports can be accessed via the Audit and Risk Committee pages on the Authority's website.

Certification of Grants and Returns

This report summarised the outcome of our certification work on the Authority's 2016/17 grants and returns.

External Audit Plan

The External Audit Plan set out our approach to the audit of the Authority's financial statements, and to support the VFM conclusion.

Report to Those Charged with Governance

The Report to Those Charged with Governance summarised the results of our audit work for 2017/18 including key issues and recommendations raised as a result of our observations. We also provided the mandatory declarations required under auditing standards as part of this report.

Auditor's Report

The Auditor's Report included our audit opinion on the financial statements along with our VFM conclusion and our certificate.

Annual Audit Letter

This Annual Audit Letter provides a summary of the results of our audit for 2017/18.

2018

January

February

March

April

May

June

July

August

September

October

November

December

January

2019

Appendix 3:

Audit fees

This appendix provides information on our final fees for the 2017/18 audit.

External audit

Our scale fee for the 2017/18 audit of the Authority is £146,603. However there will be a further fee in respect of:

- Additional work completed over the new payroll system; and
- Assessment of property valuation including consultation with a KPMG valuation specialist on the appropriateness of the land and buildings valuation.

This further fee will be agreed with the Director of Finance.

Our fees in relation to above are still subject to final determination by Public Sector Audit Appointments.

Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. The planned fee for this work is £59,237 and the final fee will be confirmed through our reporting on the outcome of that work.

We also charged £5,000 and £5,500 for certification work in regards to 2016/17 Pooling of Capital Receipts Return and Teachers' Pension Return, which are outside of Public Sector Audit Appointment's certification regime.

All fees quoted are exclusive of VAT.



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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. 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.psa.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.

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