



External audit report 2016/17

Leicester, Leicestershire and Rutland Combined Fire Authority

September 2017



Summary for the Authority

Financial statements This document summarises the key findings in relation to our 2016-17 external audit at Leicester, Leicestershire and Rutland Combined Fire Authority ('the Authority').

This report focusses on our on-site work which was undertaken in July 2017 on the Authority's significant risk areas, as well as other areas of your financial statements. Our findings are summarised on pages 6-7. The audit is substantially complete but there is still work to do on some non material notes.

Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements after the meeting of the Authority on 28th September.

We have identified a small number of audit adjustments and presentational adjustments. These had no overall effect on the bottom line.

Based on our work, we have raised five recommendations. Details on our recommendations can be found in Appendix 1.

We are now in the completion stage of the audit and anticipate issuing our completion certificate and Annual Audit letter before the statutory deadline.

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

We therefore anticipate issuing an unqualified value for money opinion.

See further details on page 14.

Acknowledgements We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

We ask the Authority to note this report.

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This report is addressed to Leicester, Leicestershire and Rutland Combined Fire Authority (the Authority) and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.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 Andrew Cardoza, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Section one

Financial Statements



We anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements after the Authority meeting on 28th September 2017. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE (*'Delivering Good Governance in Local Government'*) published in April 2016.

For the year ending 31 March 2017, the Authority has reported an underspend of £1 million against profiled budgets and an increase of £3.8 million in usable reserves.



Significant audit risks

Our *External Audit Plan 2016/17* sets out our assessment of the Authority's significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

Significant audit risks	Work performed
1. Significant changes in the pension liability due to LGPS Triennial Valuation	<p>Why is this a risk?</p> <p>During the year, the Local Government Pension Scheme for Leicestershire (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.</p> <p>The pension liability numbers to be included in the financial statements for 2016/17 will be based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data.</p> <p>There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Leicestershire County Council, who administer the Pension Fund.</p> <p>Our work to address this risk</p> <p>We liaised with the KPMG Pension Fund Audit team, who are the auditors of the LG Pension Fund, where this data was provided by the Pension Fund on the Authority's behalf to check the completeness and accuracy of data.</p> <p>We have satisfactorily assessed the reliance we can place upon the work of the actuary. We have additional assurance via our own expert (KPMG actuarial team) over the assumptions and methodology used by the Fund's actuary.</p> <p>Finally, we agreed the figures in the actuary's report to the disclosures within the Authority's financial statements. We found no discrepancies in relation to the disclosures.</p> <p>We have not identified any indications of management bias in the pension valuations made by the actuary or errors in the associated pension entries made by the Authority. The only issue which we would raise is the evidence of the review of actuarial assumptions and we recommend that the Authority evidences a formal review of these in future years.</p>

Considerations required by professional standards

Fraud risk of revenue recognition

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

In our *External Audit Plan 2016/17* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

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

Management override of controls

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

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

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

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

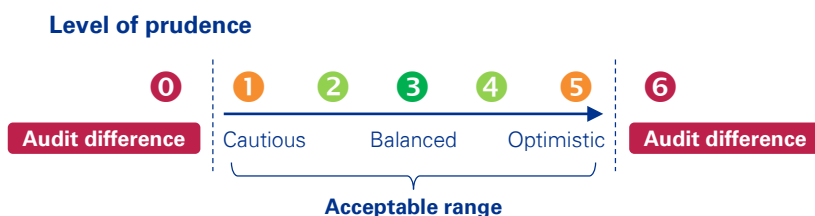
Other areas of audit focus

We identified one area of audit focus. This is not considered as a significant risks as it is less likely to give rise to a material error. Nonetheless it is an area of importance where we would carry out substantive audit procedures to ensure that there is no risk of material misstatement.

Other areas of audit focus	Our work to address the areas
1. Disclosures associated with retrospective restatement of CIES, EFA and MiRS	<p data-bbox="442 611 599 642">Background</p> <p data-bbox="442 673 1350 922">CIPFA has been working with stakeholders to develop better accountability through the financial statements as part of its 'telling the whole story' project. The key objective of this project was to make Local Government accounts more understandable and transparent to the reader in terms of how councils are funded and how they use the funding to serve the local population. The outcome of this project has resulted in two main changes in respect of the 2016-17 Local Government Accounting Code (the Code) as follows:</p> <ul data-bbox="442 942 1350 1253" style="list-style-type: none"><li data-bbox="442 942 1350 1067">■ Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and<li data-bbox="442 1087 1350 1253">■ Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MIRS) and replaces the current segmental reporting note. <p data-bbox="442 1263 1350 1419">As a result of these changes, retrospective restatement of the CIES (cost of services), EFA and MIRS is required from 1 April 2016 in the Statement of Accounts. The new disclosure requirements and the restatement of the accounts require compliance with relevant guidance and the correct application of applicable Accounting Standards.</p> <p data-bbox="442 1440 1350 1533">Though less likely to give rise to a material error in the financial statements, this is an important material disclosure change in this year's accounts, worthy of audit understanding.</p> <p data-bbox="442 1564 699 1595">What we have done</p> <p data-bbox="442 1616 1350 1709">For the restatement, we have obtained an understanding of the methodology used to prepare the revised statements. We have also agreed the figures disclosed to the Authority's general ledger and found no issues to note.</p>

Judgements

We have considered the level of prudence within key judgements in your 2016/17 financial statements and accounting estimates. We have set out our view below across the following range of judgements.



Subjective areas	2016/17	2015/16	Commentary
Property, Plant and Equipment (valuations / asset lives)	3	3	We have agreed PPE valuations carried out in 2016/17 back to valuation certificates, carried out by the Authority's external valuer. We have concluded that the Authority values its assets in accordance with accounting standards and the Code.
Pensions	3	3	The pension deficit within the funded LGPS has increased over the year mainly due to the actuarial assumptions that have been applied. We consider the overall accounting basis to be appropriate.

Section one: financial statements

Annual governance statement

We have reviewed the Authority's 2016/17 Annual Governance Statement and confirmed that:

- It complies with *Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE*;

and

- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Narrative report

We have reviewed the Authority's 2016/17 Narrative Report and, after some minor amendments, have confirmed that it is consistent with the financial statements and our understanding of the Authority. We have suggested some changes to the Narrative Statement to better reflect the guidance, particularly the inclusion of non financial key performance indicators.

Accounts production and audit process

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

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

Accounting practices and financial reporting

The Authority has recognised the additional pressures which the earlier closedown in 2017/18 will bring. We have been engaging with the Authority in the period leading up to the year end in order to proactively address issues as they emerge.

The Authority continues to strengthen its financial reporting to finalise the accounts in a shorter timescale. This puts the Authority in a good position to meet the new 2017/18 deadline. Working papers to support the accounts and the processes for accounts production are good. We consider the Authority's accounting practices appropriate.

Completeness of accounts presented for audit

We received a complete set of accounts for audit in June 2017, ahead of the statutory deadline.

Quality of supporting working papers

We issued our *Accounts Audit Protocol 2016/17* ("Prepared by Client" request) in May 2017 which outlines our documentation request. 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.



Section one: financial statements

Response to audit queries

Officers responded quickly and appropriately to audit queries, which facilitated a smooth and efficient audit process.

Controls over key financial systems

We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Based on the work performed, we are satisfied that the controls are performing effectively. We are able to place reliance on the Authority's control framework.

Financial statements audit

Our audit of the financial statements has raised the following issues:

Presentation and disclosure of the accounts

We noted a number of presentational issues and have communicated these to Management for amendment in the final version of the accounts

Narrative Report

The Authority is required to produce a Narrative Report to accompany the financial statements, as first introduced by the Accounts and Audit Regulations 2015 in 2015/16. The Code has based its guidelines on the Financial Reporting Council's Guidance on the Strategic Report issued in June 2014. We have reviewed the Narrative Report and recommend that the Authority provides further detail of non financial key performance indicators in future years.

Related Parties

During our audit, we discussed the control environment in relation to the completeness and accuracy of related party disclosures in the financial statements. Although the Authority circulates an annual form to disclose any transactions in the year with related parties, two staff members had not returned their forms at the time of the audit. We recommend that staff and members are reminded to return their forms promptly in future years.

Review of PPE Valuation Assumptions

The Authority revalues all its property assets annually. As part of the valuation process, the Authority is required to submit information about its assets to the valuer along with the instructions, as well as review and challenge of the valuation assumptions. These are both financial and non-financial assumptions. We note that whilst the Authority has submitted the details of the assets to the valuer with appropriate instructions, there was no documented review or challenge of the assumptions. We therefore recommend a more formal review of assumptions.

Asset Verification Exercises

We understand that the Authority does not conduct regular verification exercises, thus there is an increased risk that the conditions indicating the requirement of an impairment of an asset are not identified. We therefore recommend that the Authority undertakes a regular verification of assets.

Further detail and associated recommendations can be found in Appendix 1.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendation in last year's ISA 260 report.

The Authority has implemented the recommendation in our ISA 260 Report 2015/16.

Appendix 2 provides further details.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2016/17 financial statements.

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

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

Declaration of independence and objectivity

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

In relation to the audit of the financial statements of Leicester, Leicestershire and Rutland Combined Fire Authority for the year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Leicester, Leicestershire and Rutland Combined Fire Authority, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 5 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Area Manager – Finance and ICT for presentation to the Authority. 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 2016/17 financial statements.



Section two

Value for money

Our 2016/17 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people and for working with partners and third parties.

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 for working with partners and third parties.



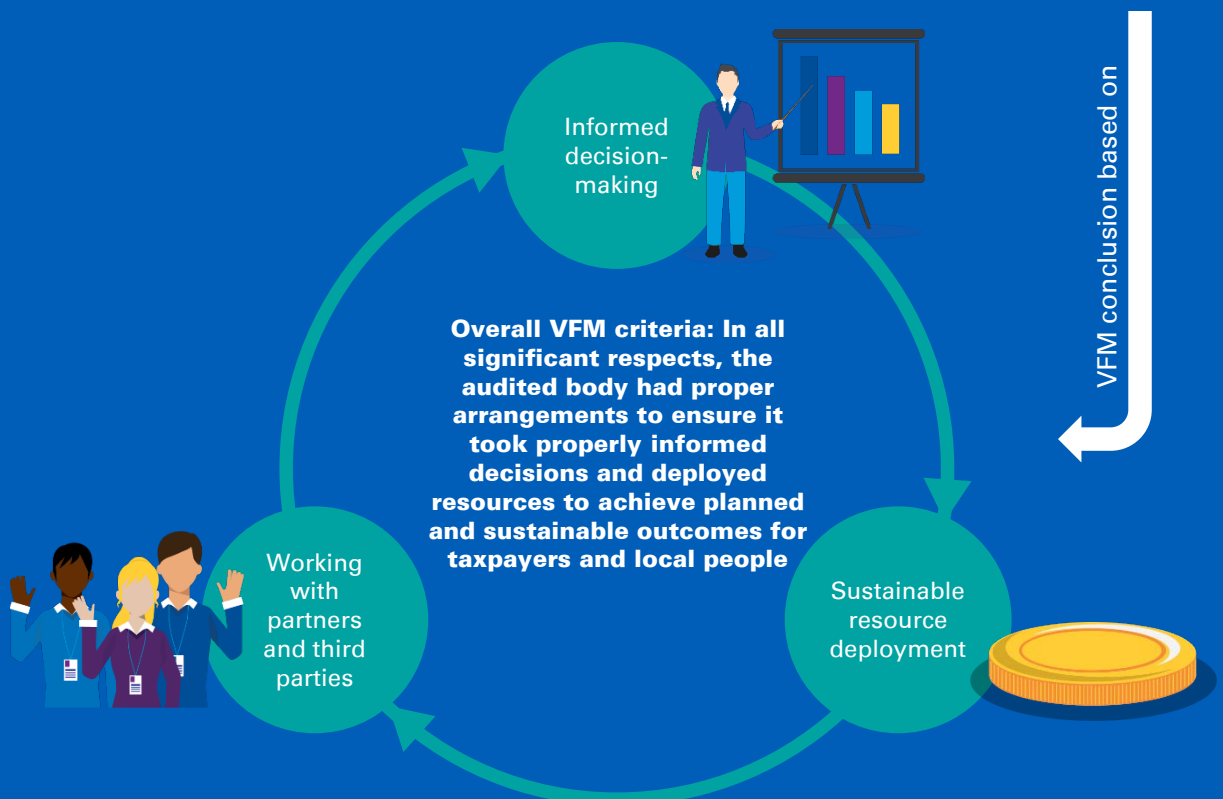
VFM conclusion

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

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

Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people and for working with partners and third parties..

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



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

VFM assessment summary			
VFM risk	Informed decision-making	Sustainable resource deployment	Working with partners and third parties
1. Financial resilience	✓	✓	✓
Overall summary	✓	✓	✓

In consideration of the above, we have concluded that in 2016/17, the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people and for working with partners and third parties.

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

Significant VFM risks

We have identified one significant VFM risk, as communicated to you in our *2016/17 External Audit Plan*. In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority’s current arrangements in relation to this risk area is adequate.

Significant VFM risks	Work performed
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Financial resilience

Why is this a risk?

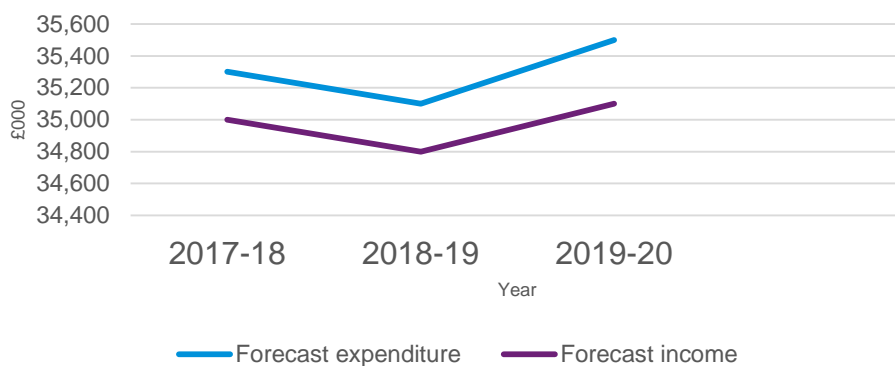
The sector continues to face significant financial pressures and uncertainties and the Authority has recognised a number of risks and uncertainties associated with its Medium Term Financial Plan (MTFP), including uncertainties in funding, council tax projections and the transfer of responsibility for fire authorities to the Home Office which could result in a change to the funding regime. The Authority needs to have effective arrangements in place for managing its annual budget, generating income and identifying and implementing savings required to balance its medium term financial plan. The Authority has determined the budget gap over the life of the medium term financial plan and needs to ensure that momentum is maintained to deliver efficiencies and savings in order to close the budget gap.

Summary of our work

Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services. However, the settlement for fire services has been better than local government generally.

Medium Term Financial Plan

The Authority develops its MTFP on an annual basis. We summarise the next three years per the original MTFP in the chart below and this showed that the Authority needed to make savings in the region of £0.6 million over the period. The latest projections however, show a better picture, with a balanced budget for 2017/18 and 2018/19.



Significant VFM risks

Work performed

(continued)

The Authority has made a budget surplus of over £1 million in year. It has been able to achieve this position due to sound financial management in recent years. The Medium Term Financial Plan shows that the Authority has achieved substantial savings over the last few years. This has been achieved by undertaking in-depth reviews of major areas of expenditure, including management, fleet and premises costs. The outcome of these reviews were target savings which were built into budgets and the majority of which have been achieved. The Authority has over £13 million in usable reserves which equates to around 39% of total cost of services expenditure, putting the Authority in a strong position.

We have assessed the Authority's financial standing by discussions with officers and a review of the 2016/17 outturn, the outcome of the 2017/18 budget setting process and the Medium Term Financial Plan which spans the period up to 2019/20. We have concluded that the assumptions used are reasonable, that the Authority has recognised the risks and uncertainties inherent in forecasting future budgets and that the appropriate messages have been communicated to Members. The Authority recognises the need to critically review expenditure to drive further savings and continually review budget assumptions. In particular, following the announcement of a higher than expected pay increase for firefighters, the Finance team are actively working on plans to manage the increased cost in future years. The Authority continues to enhance its partnership working arrangements both with other local government bodies and with the other emergency services.

A close-up, shallow depth-of-field photograph of a stack of books on a wooden surface. The books are stacked vertically, with the top one showing a red cover. A silver pen lies horizontally in the foreground, its tip pointing towards the left. The background is softly blurred, showing more books and a warm, golden light. The word "Appendices" is overlaid in a thin, dark red font, centered horizontally and partially enclosed by two vertical lines of the same color.


Appendices


Key issues and recommendations


Our audit work on the Authority’s 2016/17 financial statements have identified a number of issues. We have listed these issues in this Appendix together with our recommendations which we have agreed with Management. We have also included Management’s responses to these recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations. We will formally follow up these recommendations next year.

Each issue and recommendation have been given a priority rating, which is explained below.

- 

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.
- 

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.
- 

Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

The following is a summary of the issues and recommendations raised in the year 2016/17.

2016/17 recommendations summary		
Priority	Number raised from our year-end audit	Total raised for 2016/17
High	0	0
Medium	4	4
Low	1	1
Total	5	5

Medium priority

Pension assumptions

The Authority receives a set of pension assumptions from the actuary. However, there is currently no formal evidence of review and acceptance of these assumptions for the LGPS.

Recommendation

We recommend that the Authority formally evidences its review of the actuarial assumptions at an appropriate meeting.

Management Response

Recommendation agreed – the assumptions will be reviewed by the Corporate Governance Committee.

Owner

Area Manager Finance and IT

Deadline

May 2018

Medium priority

Narrative Report

The Authority is required to produce a Narrative Report to accompany the financial statements, as first introduced by the Accounts and Audit Regulations 2015 in 2015/16. The Code has based its guidelines on the Financial Reporting Council's Guidance on the Strategic Report issued in June 2014. The Authority's Narrative Report does not currently align with the requirements in relation to the Authority's Key Performance Indicators (KPIs).

Recommendation

We recommend that the Authority aligns its Narrative Report to the requirements of the Code and the FRC's guidance to include key performance indicators in future years. KPIs disclosed should be evidenced, including any relevant calculations.

Management Response

Recommendation agreed for the 2017-18 accounts.

Owner

Area Manager Finance and IT

Deadline

May 2018

Medium
priority

Related Parties

During our audit, we discussed the control environment in relation to the completeness and accuracy of related party disclosures in the financial statements.

Although the Authority circulates an annual form, two staff members from related organisations had not returned this at the time of the audit.

Recommendation

The Authority should remind staff and Members of the need to return forms promptly.

Management Response

Recommendation agreed - we will continue to remind individuals concerned of the need to return, particularly in light of earlier closedown from 2017-18.

Owner

Area Manager Finance and IT

Deadline

May 2018

Medium
priority

Review of PPE Valuation Assumptions

The Authority revalues all its property assets annually. As part of the valuation process, the Authority is required to submit information about its assets to the valuer along with the instructions, as well as review and challenge of the valuation assumptions.

These are both financial and non-financial assumptions. We note that whilst the Authority has submitted the details of the assets to the valuer with appropriate instructions, there was no documented review or challenge of the assumptions. We therefore recommend a more formal review of assumptions.

Recommendation

The Authority should formally review all assumptions used by the valuer to ensure that they are relevant. Where appropriate, the Authority should challenge these assumptions.

Management Response

Recommendation agreed – the assumptions will be reviewed by the Corporate Governance Committee.

Owner

Area Manager Finance and IT

Deadline

May 2018



Asset Verification Exercises

We understand that the Authority does not conduct regular verification exercises, thus there is an increased risk that the conditions indicating the requirement for an impairment of an asset are not identified.

Recommendation

We recommend that the Authority reviews its asset verification procedures, to ensure that any circumstances leading to impairment of an asset are identified.

Management Response

Recommendation agreed - we will consider ways of conducting this review in advance of the 2017-18 accounts.

Owner

Area Manager Finance and IT

Deadline

May 2018

Follow-up of prior year recommendations

In the previous year, we raised one recommendation which we reported in our *External Audit Report 2015/16 (ISA 260)*. The Authority has implemented the recommendation.

We have used the same rating system as explained in Appendix 1.

Each recommendation is assessed during our 2016/17 work, and we have obtained the recommendation’s status to date. We have also obtained Management’s assessment of each outstanding recommendation.

Below is a summary of the prior year’s recommendations.

2015/16 recommendations status summary

Priority	Number raised	Number implemented / superseded	Number outstanding
High	0	0	0
Medium	1	1	0
Low	0	0	0
Total	1	1	0



Accounts Production Process

The deadline for the production of the accounts is moving to 31 May with effect from 2017/18. The Authority now only has one more year to bring forward the production of the accounts in light of this change. This will need to be done whilst ensuring that the quality of the accounts is not diminished.

Recommendation

The closedown plan for 2016/17 should allow for an earlier closedown and preparation of the financial statements.

Management original response

The recommendation is agreed. Arrangements are being made to work with KPMG and regional partners to review ways of achieving this.

Responsibility – Area Manager – Finance
Due date – March 2017

Fully implemented

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 Authority). 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.

Some minor amendments focused on presentational improvements have been made to the 2016/17 draft financial statements and a number of amendments to the figures in the accounts have been made which are lower than our reporting threshold. The Finance team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Adjusted audit differences

There were no adjusted audit differences above our trivial threshold of £35,000, identified by our audit of the Authority's financial statements for the year ended 31 March 2017.

Unadjusted audit differences

We are required to report all unadjusted misstatements, other than those which are clearly trivial. Our audit of the financial statements has not identified any unadjusted misstatements.

Materiality and reporting of audit differences

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

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

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

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

We used the same planning materiality reported in our External Audit Plan 2016/17, presented to you in March 2017.

Materiality for the Authority's accounts was set at £0.7 million which equates to around 1.9 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Authority

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 Authority any misstatements of lesser amounts to the extent that these are identified by our audit work.

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

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

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £35,000 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 Authority to assist it in fulfilling its governance responsibilities.

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd Terms of Appointment ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 Integrity, Objectivity and Independence ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of *ISA (UK&I) 260 'Communication of Audit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

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

disclosed. We do this in our Annual Audit Letter.

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

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

Auditor declaration

In relation to the audit of the financial statements of Leicester, Leicestershire and Rutland Combined Fire Authority for the financial year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Leicester, Leicestershire and Rutland Combined Fire Authority, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Appendix 5

Non-audit work and independence

We have not undertaken any non audit work at the Authority in the year.

Appendix 6

Audit fees

Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audit is £29,247 plus VAT (£29,247 in 2015/16).

PSAA fee table		
Component of audit	2016/17 (planned fee) £	2015/16 (actual fee) £
Accounts opinion and use of resources work		
PSAA scale fee	29,247	29,247
Total fee for the Authority set by the PSAA	29,247	29,247

All fees are quoted exclusive of VAT.



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