



External Audit ISA260 Report 2017/18

**Leicester,
Leicestershire and
Rutland Combined
Fire Authority**

DRAFT

July 2018



Leicestershire Fire and Rescue Service

This document summarises the key findings in relation to our 2017/18 external audit at Leicester, Leicestershire and Rutland Combined Fire Authority ('the Authority').

This report covers both our on-site work which was completed in February and June 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.

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 Page 9 to 11:

- **Valuation of PPE** – Whilst the Authority operates a cyclical revaluation approach, the code requires that land and buildings be held at fair value. Consideration of the way in which the Authority ensures that assets not subject to revaluation in the year are not materially misstated.
- **Pensions Liabilities** –Valuation of the Authority's pension liability, as calculated by the Actuary, is dependant on accuracy and completeness of data provided. KPMG reviewed the processes in place to ensure accuracy and completeness of data provided.
- **Faster Close** – With the timetable for the production of the financial statements being significantly advanced with accounts needing to be signed by 31 July, KPMG will work with the Authority in advance of the audit to understand the steps being taken to meet these deadlines and the impact on our work.

We have identified no audit adjustments. Based on our work, we have therefore not raised any recommendations.

Audit Progress and Status

The following matter is currently outstanding:

Leicestershire County Council Pension Fund.

Subject gaining assurances from the external auditors of the above Pension fund on their audit, the clearance of our final queries and final (including Director) review we are moving into the completion stage of the audit and expect to be in a position to issue our 2017/18 final accounts opinion before deadline of the end July 2018.

Summary for Leicestershire Fire and Rescue Service (cont.)

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- reduction in government funding** – This was included as a VFM risk in prior year as it reflects the reduction in central government funding faced by all Fire and Rescue Services. There will be less reliance on the Revenue Support Grant and increasing reliance on business rates income. Sustainability has been tested.

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.

Acknowledgements

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

Section one

Control

Environment



Controls over key financial systems

The controls over of the key financial systems during 2017/18 are sound.

Work completed

We reviewed the outcome of internal audit's work on the financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy.

Where we have determined that this is the most efficient audit approach to take, we evaluate the design and implementation of the control and then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with your internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

Based on our work, and the work of your internal auditors we have determined that the controls over the majority of the key financial systems are sound.

Controls over key financial systems (cont.)

Aspect of controls	Assessment
Property, Plant and Equipment	3
Cash and Cash Equivalents	3
Pension Assets and Liabilities	3
Journal entries	3
Payroll	3
Financial reporting	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



An overhead photograph of four business professionals sitting around a white conference table. A woman in a grey top is at the top, looking down at a laptop. A man in a light blue shirt is on the left, also looking at a laptop. A woman in a white top and black skirt is at the bottom left, with her arms crossed. A man in a light blue shirt is at the bottom right, with his hands clasped. The scene is brightly lit, with shadows cast across the table and floor.

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 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.

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

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. Specifically, the Authority recognised the additional pressures which the earlier closedown brought and 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 adequate.

Going concern

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

Completeness of draft accounts

We received a complete set of draft accounts on 31 May which was on the statutory deadline.

Quality of supporting workingpapers

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, all of our audit work was completed within the timescales expected with no outstanding queries.

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 a surplus on General Reserve of £574k.

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

Management override of controls

01

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.

Fraudulent revenue recognition

02

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 and areas of audit focus 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 ofPPE <p>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.</p> <p>This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value.</p>
Our assessment and work undertaken:	<p>We reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were not materially misstated and considered the robustness of that approach.</p> <p>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.</p> <p>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).</p> <p>As a result of this work we determined that there were no issues to note.</p> <p>We have set out our view of the assumptions used in relation to accounting for Property, Plant & Equipment at page 12.</p>

Specific audit areas (cont.)

Significant Audit Risks – Authority

<p>Risk:</p>	<p>Pension Liabilities</p> <p>The net pension liability represents a material element of the Authority’s balance sheet. The Authority is an admitted body of Leicestershire County Council Pension Fund (the 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.</p> <p>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.</p> <p>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.</p> <p>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.</p>
<p>Our assessment and work undertaken:</p>	<p>As part of our work we reviewed the controls that the Authority has in place over the information sent to the Scheme Actuary, including the Authority’s process and controls with respect to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of Leicestershire County Council Pension Fund.</p> <p>We reviewed the appropriateness of the key assumptions included within the valuation and compared them to expected ranges and used a KPMG Actuary to provide a specialist assessment of those assumptions. We also reviewed the methodology applied in the valuation by Hymans Robertson LLP (the Actuary).</p> <p>In addition, we reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements.</p> <p>In order to determine whether the net pension liability has been appropriately accounted for we considered the valuation of pension assets. As part of our audit of the Pension Fund we gained assurance 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.</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.</p> <p>We have set out our view of the assumptions used in valuing pension assets and liabilities at page 12.</p>

Specific audit areas (cont.)

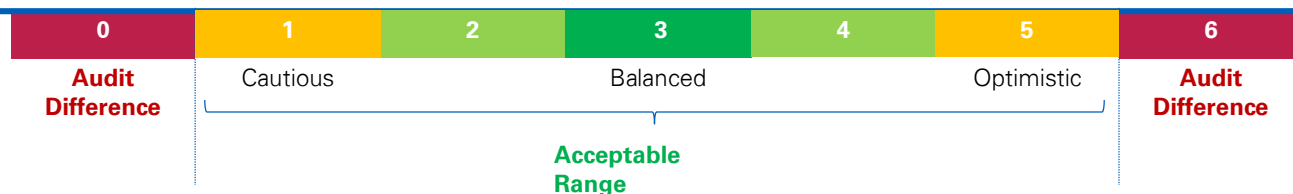
Significant Audit Risks – Authority

Risk:	<p>Faster Close</p> <p>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.</p> <p>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.</p> <p>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:</p> <ul style="list-style-type: none"> — Ensuring that any third parties involved in the production of the accounts (including valuers and actuaries) 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 Corporate Governance Committee meeting schedules have been updated to permit signing in July; and — Applying a shorter paper deadline to the July meeting of the Corporate Governance Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report. <p>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.</p> <p>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 if work is still ongoing in relation to the Authority’s Whole of Government Accounts return and the Pension Fund Annual Report. This is not a matter of concern and is not seen as a breach of deadlines.</p>
Our assessment and work undertaken:	<p>We liaised with officers in preparation for our audit in order to understand the steps that the Authority was taking in order to ensure it met the revised deadlines. We also advanced audit work into the interim visit in order to streamline the year end audit work.</p> <p>We received draft financial statements on 31 May which was on the statutory deadline. The quality of this draft was consistent with that of prior years.</p>

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



Subjective area

2017/18 Commentary

Property, Plant and Equipment (valuations / asset lives)

3

We have agreed PPE valuations carried out in 2017/18 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

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.

Judgements (cont.)

Subjective area	2017/18	Commentary																				
Valuation of pension assets and liabilities	3	<p>The Authority continues to use Hymans Robertson LLP 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% change in the discount rate would change the net liability by £1.5 million.</p> <p>The actual assumptions adopted by the Actuary fell within our expected ranges as set out below:</p> <table border="1" data-bbox="554 741 1353 1176"> <thead> <tr> <th data-bbox="554 741 711 768">Assumption</th> <th data-bbox="875 741 975 806">Actuary Value</th> <th data-bbox="1061 741 1146 806">KPMG Range</th> <th data-bbox="1196 741 1353 768">Assessment</th> </tr> </thead> <tbody> <tr> <td data-bbox="554 855 711 882">Discount rate</td> <td data-bbox="875 855 946 882">2.6%</td> <td data-bbox="1032 855 1175 882">2.20-2.60%</td> <td data-bbox="1268 855 1286 882">3</td> </tr> <tr> <td data-bbox="554 917 696 944">CPI inflation</td> <td data-bbox="875 917 946 944">2.30%</td> <td data-bbox="1032 917 1175 944">1.90-2.50%</td> <td data-bbox="1268 917 1286 944">3</td> </tr> <tr> <td data-bbox="554 980 718 1006">Salary Growth</td> <td data-bbox="875 980 946 1006">3.80%</td> <td data-bbox="1032 980 1175 1006">3.35-4.85%</td> <td data-bbox="1268 980 1286 1006">3</td> </tr> <tr> <td data-bbox="554 1031 746 1152">Life expectancy Current male / female Future male/female</td> <td data-bbox="861 1052 975 1116">22.1/24.3 23.8/26.2</td> <td data-bbox="1046 1052 1160 1116">22.2/24.3 24.0/26.2</td> <td data-bbox="1268 1052 1286 1079">3</td> </tr> </tbody> </table>	Assumption	Actuary Value	KPMG Range	Assessment	Discount rate	2.6%	2.20-2.60%	3	CPI inflation	2.30%	1.90-2.50%	3	Salary Growth	3.80%	3.35-4.85%	3	Life expectancy Current male / female Future male/female	22.1/24.3 23.8/26.2	22.2/24.3 24.0/26.2	3
Assumption		Actuary Value	KPMG Range	Assessment																		
Discount rate		2.6%	2.20-2.60%	3																		
CPI inflation		2.30%	1.90-2.50%	3																		
Salary Growth		3.80%	3.35-4.85%	3																		
Life expectancy Current male / female Future male/female		22.1/24.3 23.8/26.2	22.2/24.3 24.0/26.2	3																		



Proposed opinion and audit differences

We anticipate issuing an unqualified audit opinion on the Authority's 2017/18 financial statements following completion of our audit work and approval of the Statement of Accounts by the Corporate Governance 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 for this year's audit was set at £0.68 million. Audit differences below £35,000 are not considered significant.

We did not identify any material misstatements.

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.

Annual Report

We have reviewed the Authority's 2017/18 Annual Report and can confirm it is consistent with the financial information contained in the audited financial statements.



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 Leicestershire Fire and Rescue Service for the year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and the 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 3 in accordance with ISA 260 report.

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 Adam Stretton (Area Manager Finance and ICT) for presentation to the Corporate Governance 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

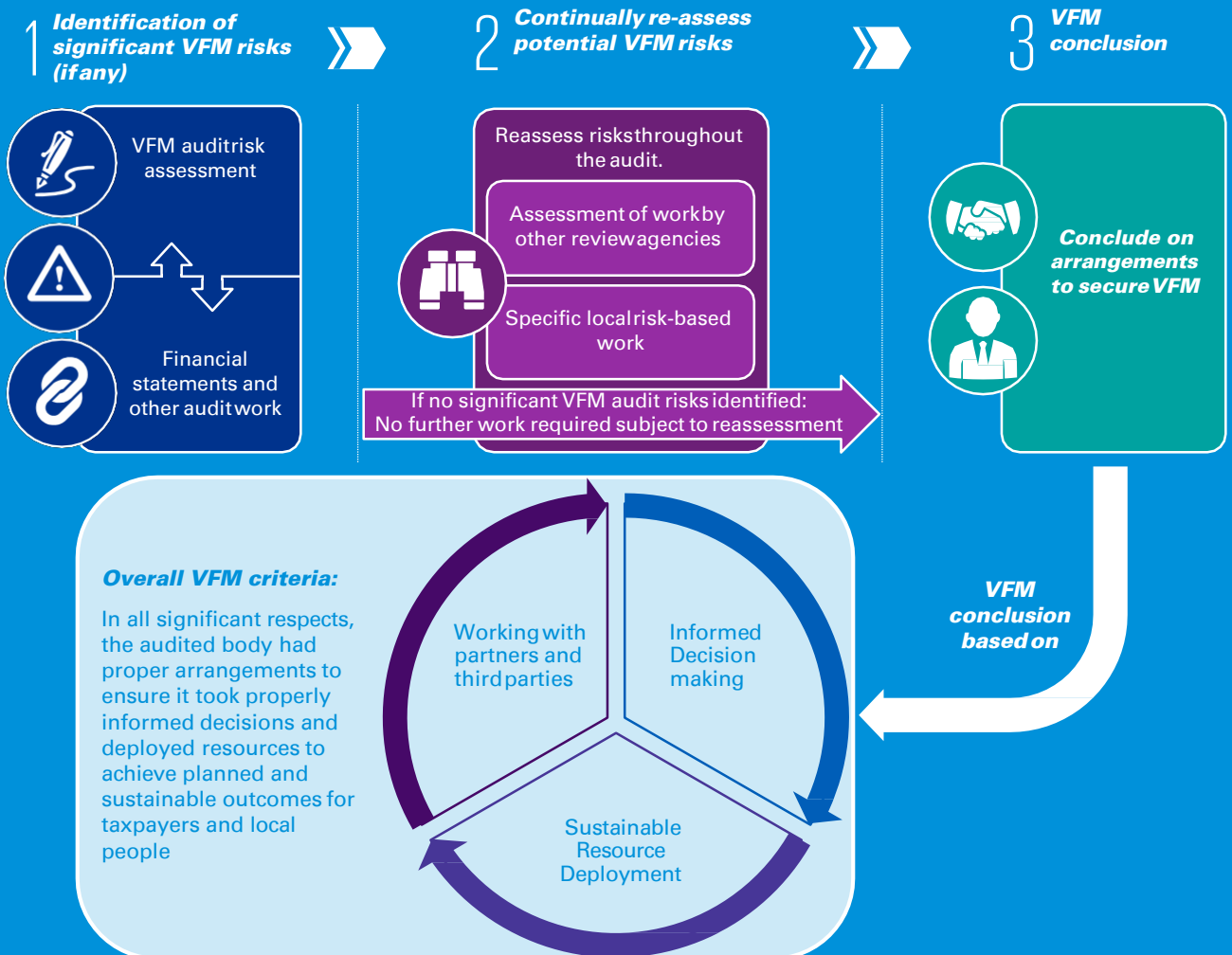
Our 2017/18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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 VFM risk identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money conclusion.

Applicability of VFM Risks to VFM sub-criteria			
VFM Risk	Informed decision making	Sustainable resource deployment	Working with partner and third parties
Financial resilience- reduced government funding			

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.

Our work has not identified any areas of weakness in the Authority’s arrangement: 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*, 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 this risk area is adequate.

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

<p>Risk:</p>	<p>Financial resilience- reduction in government funding</p> <p>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, impact of pay awards for firefighters and any significant recommendations arising from the Grenfell tragedy. 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.</p>
<p>Our assessment and work undertaken:</p>	<p>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 the period 2018/19 to 2020/21.</p> <p>The Authority has made a budget surplus of just under £600k 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 mainly as a result of in-depth reviews of major areas of expenditure, including management, fleet and premises costs. The savings have enabled the Authority to provide growth in improving operational capacity and resilience. 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.</p>

Appendices



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 £0.68 million which equates to around 2% percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Leicestershire Fire and Rescue Service

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 Leicestershire Fire and Rescue Service 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 £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 Corporate Governance Committee to assist it in fulfilling its governance responsibilities.

Appendix 2:

Required communications with the Leicestershire Fire & Rescue Service

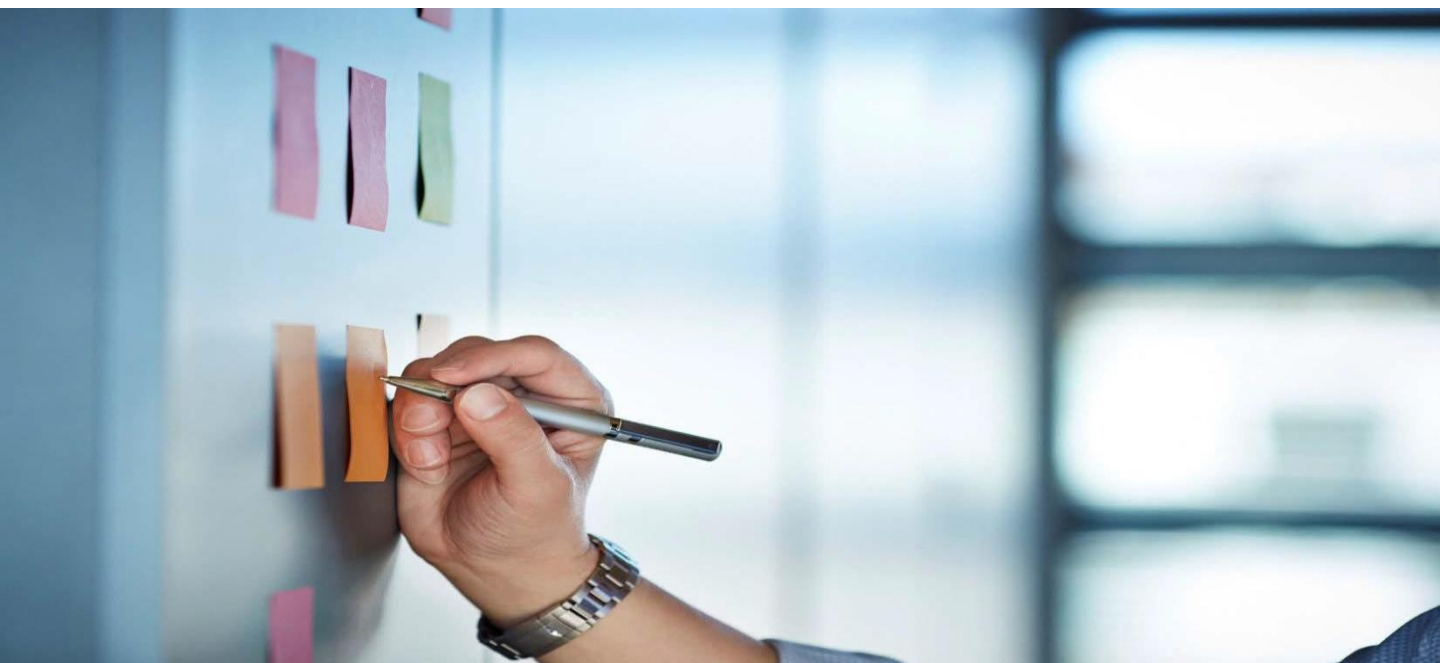
We have provided below at-a-glance summary of the information we are required to report to you in writing by International Accounting Standards.

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 adjusted differences as a result of our audit of the 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 Corporate Governance 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 confirmation that there were no significant deficiencies identified, in Section one of this report.
Actual or suspected fraud, non-compliance 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 2:

Required communications with the Leicestershire Fire & Rescue Service

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 have complied with relevant ethical requirements regarding independence. See page 26 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 13.
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.



Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF LEICESTER, LEICESTERSHIRE AND RUTLAND COMBINED FIRE AUTHORITY

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.

The conclusion of the audit engagement leader as to our compliance with the FRC Ethical Standard in relation to this audit engagement and that the safeguards we have applied are appropriate and adequate are subject to review by an engagement quality control reviewer, who is a Audit Director not otherwise involved in your affairs.

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

Declaration of independence (cont.)

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

Summary of fees

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 4, 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	29,247	29,247

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 Corporate Governance 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 Corporate Governance 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

KPMG LLP

Appendix 4:

Audit fees

As communicated to you in our *External Audit Plan 2017/18*, our scale fee for the audit is £29,247 plus VAT (£29,247 in 2016/17), which is consistent with the prior year.

All fees quoted are exclusive of VAT.

Component of the audit	2017/18 Planned Fee £	2016/17 Actual Fee £
Accounts opinion and value for money work		
PSAA Scale fee Leicestershire Fire and Rescue Service	29,247	29,247
Total audit services	29,247	29,247
Grand total fees for the Authority	29,247	29,247





The key contacts in relation to our audit are:

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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 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, 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, SW1P3HZ.

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