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Interim Audit Report 2014/15

Leeds City Council

June 2015

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in connection with this
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This document summarises the key findings arising from our work to date in relation to both the audit of the Authority's 2014/15 financial statements and the 2014/15 VFM conclusion.

Scope of this report

This report summarises the key findings arising from:

- our interim audit work at Leeds City Council (the Authority) in relation to the 2014/15 financial statements; and
- our work to support our 2014/15 value for money (VFM) conclusion up to March 2015.

Financial statements

Our *External Audit Plan 2014/15*, presented to you in December 2014, set out the four stages of our financial statements audit process.

During January to March 2015 we completed our planning and control evaluation work. This covered:

- review of the Authority's general control environment, including the Authority's IT systems;
- testing of certain controls over the Authority's key financial systems;
- review of the internal audit function's assessment of core systems;
- review of the Authority's accounts production process, including work to address prior year audit recommendations and the specific risk areas we have identified for this year; and
- initial data analytics work over capital, payroll and journals data to assist with year end testing.

VFM conclusion

Our *External Audit Plan 2014/15* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission and detailed our initial risk assessment.

We did not identify any specific risks to our VFM conclusion at the

planning stage and have not identified any further risks up to the date of this report.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our interim audit work in relation to the 2014/15 financial statements.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Acknowledgements

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

Organisational and IT control environment	<p>Your organisational and IT control environment is effective overall.</p> <p>We noted an issue in one area: approval of individuals authorisation rights over orders and payments on FMS. We are still investigating this issue at the time of this report.</p>
Controls over key financial systems	<p>The controls over all of the key financial systems are sound.</p> <p>We identified no matters arising and we can rely on those controls as part of the financial statement audit and we have not changed our planned audit approach.</p>
Review of internal audits assessment of core systems	<p>Following our review of Internal Audit's work on core systems, did not identify any issues which would cause us to change our audit approach.</p>
Accounts production process and specific audit risk areas	<p>The Authority's overall process for the preparation of the financial statements is adequate.</p> <p>The Authority has a good understanding of the key audit risk areas we identified and is making progress in addressing them. However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.</p>
VFM risks	<p>We have not identified any specific VFM risks through our risk assessment.</p> <p>We will continue to assess VFM risks over the Council's arrangements for securing financial resilience and challenging economy, efficiency and effectiveness in prioritising resources and improving efficiency and productivity.</p>

Your organisational and IT control environment is effective overall.

We noted an issue in one area: approval of individuals authorisation rights over orders and payments on FMS. We are still investigating this issue at the time of this report.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit.

We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

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

Key findings

We consider that your organisational and IT controls are effective overall, but noted an issue in one area:

- We looked at authorisation rights over orders and payments on FMS. Out of a sample of 6 individuals, 1 individual was identified whose authorisation limit needed revising. Further testing will be completed over this area to investigate the extent of this issue and determine any recommendations we can make regarding this.

This weakness may mean that we will need to alter our audit strategy in relation to expenditure. This could include additional substantive testing at year-end.

Aspect	Assessment
<i>Organisational controls:</i>	
Management's philosophy and operating style	3
Culture of honesty and ethical behaviour	3
Oversight by those charged with governance	3
Risk assessment process	3
Monitoring of controls	3
<i>IT controls:</i>	
Access to systems and data	3

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

The controls over all of the key financial systems are sound.

Work completed

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.

As part of our interim assessment we have looked at budgetary controls, entity level controls (including monitoring of such controls), and we have reviewed the minutes of the Executive Board, Audit Committee, and Standards and Conduct Committee. We have also assessed procedures and controls of specific financial systems and areas as detailed.

In addition, we have done some initial investigatory work using data analysis techniques, which will be completed during our audit of the final accounts. This includes work on Capital over the Fixed Asset Register, such as looking for duplicate assets, recalculating the depreciation expense, and searching for assets held outside the Leeds local area, and work on Payroll including recalculating payroll expenses, looking at pay increases and general profiling of payroll data.

Key findings

Based on our work, the controls over all of the key financial systems are sound.

Financial system	Controls Assessment
Cash and Cash Equivalents	3
Capital (impairment review, and rolling system of revaluations)	3
Pensions (independent actuarial valuation of pension scheme assets and liabilities, and management review of approval of actuarial assumptions)	3

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

Following our review of Internal Audit's work on core systems, we did not identify any issues which would cause us to change our audit approach.

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

Review of Interim Audit

Work completed

The work of your internal auditors over core systems and their findings is one of the information sources we use to inform our audit risk assessment.

We review the work your internal auditors perform to assess the control framework for certain key financial systems, however we do not seek to rely on this work.

Key findings

Based on the internal audit reports we reviewed, covering payroll, benefits, rents, council tax and NNDR, sundry income and treasury, we have not identified any additional risk areas which would cause us to change our audit approach.

We have not assessed the work of internal audit in detail. We can however comment on the timing and scope of the work of internal audit. This was appropriate to act as an information source for our external audit.

Accounts production process

Work completed

We issued our Accounts Audit Protocol to the Principal Accountant and Senior Financial Manager in February. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide to support our audit work. We discussed our requirements in detail in a meeting in January.

We will continue to meet with the Principal Accountant and Senior Financial Manager on a regular basis to support them during the financial year end closedown and accounts preparation.

Key findings

We consider that the overall process for the preparation of your financial statements is adequate.

The Authority has a good understanding of the key audit risk areas we identified and is making progress in addressing them.

However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.

Work completed

In our *External Audit Plan 2014/15*, presented to you in December 2014, we identified the key audit risks affecting the Authority's 2014/15 financial statements.

Our audit strategy and plan remain flexible as risks and issues change throughout the year. To date there have been no changes to the risks previously communicated to you.

We have been discussing these risks with the Principal Accountant and Senior Financial Manager as part of our regular meetings. In addition, we sought to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

Key findings

The Authority has a clear understanding of the risks and making progress in addressing them. However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.

The table below provides a summary of the work the Authority has completed to date to address these risks.

Key audit risk	Issue	Progress
	In 2013/14 late changes were made to the asset valuations in the financial statements after the accounts were sent for audit, mainly to incorporate PPE revaluations not available in time for the first draft.	We have reviewed your approach to re-valuation and impairment of assets and reassessed the risk as part of our interim work. We have no matters to raise on this area.
Area of audit focus	Issue	Progress
	Valuation of assets supporting the pension fund have fluctuated significantly over recent years. In 2013/14 the Authority's share of the Local Government Pension Scheme liability was £818m at 31 March 2014, a reduction of £368m from the previous year. The valuation is determined by the scheme's actuary, based on several key assumptions which are judgemental in nature.	<p>We have reviewed the processes around the IAS19 accounts disclosure, and have reviewed the information supplied by the Authority to the actuary. We have assessed the scheme's actuary, AON Hewitt's, qualification as an expert. We have no matters to raise on these areas.</p> <p>We will review the key inputs to the valuation and assess the reasonableness of the assumptions used in the calculation as part of our final accounts work.</p>

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

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

Our *External Audit Plan 2014/15* describes in more detail how the VFM audit approach operates.

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority’s financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

Our VFM audit draws heavily on other audit work which is relevant to our VFM responsibilities and the results of last year’s VFM audit. We then assess if more detailed audit work is required in specific areas.

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.



We have not identified any specific VFM risks through our risk assessment.

Work completed

In line with the risk-based approach set out on the previous page, we have

- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- considered the results of relevant work by the Authority, other inspectorates and review agencies in relation to these risk areas;
- reviewed the Authority's Medium Term Financial Plan; and
- concluded to what extent we need to carry out additional risk-based work.

Key findings

We have completed our initial VFM risk assessment and have not identified any key issues. We will update our assessment throughout the year should any issues present themselves and report against these in our ISA260.



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