

CORPORATE GOVERNANCE COMMITTEE – 20 MAY 2024

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

EXTERNAL AUDIT OF THE 2022/23 STATEMENT OF ACCOUNTS, ANNUAL GOVERNANCE STATEMENT AND PENSION FUND ACCOUNTS - UPDATED

Purpose

1. The purpose of this report is to present an updated Audit Findings Report from the external audit of the 2022/23 financial statements and to seek the Committee's approval of the letters of representation.

Background

2. The committee received an interim Audit Findings Report (AFR) for Leicestershire County Council at its last meeting on 26 January 2024.
3. The report explained that the external audit had been substantially completed with the exception of Property, Plant and Equipment (PPE) where there were delays in providing the evidence required to support the valuations used in the Council's accounts. These issues have now been resolved.
4. The report to the Committee in January also explained that the final AFR for the Pension Fund audit was not complete at the time of the meeting and that it would be reported alongside the final AFR for the County Council.
5. Grant Thornton UK LLP, the County Council's external auditor, is required to communicate the results of the audit to those charged with governance prior to certifying the financial statements. The draft 2022/23 Statement of Accounts, Annual Governance Statement (AGS) and Pension Fund Accounts can be viewed on the Council's website via the following link:

<https://www.leicestershire.gov.uk/sites/default/files/2023-07/LCC-Statement-of-Accounts-2022-2023.pdf>
6. Copies of the following reports are attached as appendices; Leicestershire County Council (Updated) AFR – Appendix A, and Leicestershire County Council Pension Fund AFR – Appendix B.

7. Copies of the letters of representation for the County Council and its Pension Fund are attached as Appendices C and D for member consideration.
8. The financial statements also include the Annual Governance Statement (AGS). Since the draft AGS in June 2022, the AGS has been updated for the latest position on the internal audit of East Midlands Shared Services (EMSS), the Government's decision to end funding to the Leicester and Leicestershire Enterprise Partnership (LLEP) and the funding arrangements of the East Midlands Development Company (DevCo). An updated copy of the AGS is attached as Appendix E.
9. Mark Stocks, Key Audit Partner from Grant Thornton UK LLP, responsible for the audit will attend the Committee meeting to communicate any significant findings and answer any questions.
10. The external auditor has reviewed the financial statements and anticipates issuing an unqualified opinion. The auditor will provide a verbal update at the meeting.
11. The updated financial statements will be reported to the Council's Constitution Committee on the 24 May 2024 for signing. The external auditor will then sign off the accounts.

Updated Audit Findings Report – Leicestershire County Council 2022/23

12. The key changes to the AFR that were previously provided to the committee in January are highlighted in yellow within the report. These are:

Asset Valuations

13. The Council uses an external firm of valuers to undertake the valuations. The original valuations were provided on time and were used in the Council's draft accounts reported in June 2023. However, there were delays during the audit in obtaining the required level of evidence to support the calculations for the sample requested by the auditor. Changes in staff at the external valuation firm has meant that there have been delays and valuations having had to be reperformed, including corrections to prior year valuations. A number of updated valuation reports were required over a number of months to manage the changes required. This has resulted in a substantial amount of rework to the draft accounts. A new firm of external valuers have been contracted for the 2023/24 valuations.
14. The main issue was due to non-school building areas being incorrectly valued at the same rate as the building areas – which attract a higher valuation. Further investigation identified that the overstatement originated from 2019/20. All school valuations since 2019/20 have now been updated. Separately, the Council has also reviewed assets held at historic cost. This has identified that some of these assets were no longer owned by the Council and needed removing from the fixed asset register and some needed to be revalued down.
15. As a result of the updates, there was a reduction of £40.1m needed to the carrying value of land and buildings included within the balance sheet as at 31st March 2022

and a further £9m reduction as at 31 March 2023. The accounts have been updated for these amendments.

16. It should be noted that these corrections do not have any impact on the Council's general fund balance and are offset within the unusable reserves of the Council via the capital adjustment account and the revaluation reserve.

Financial Instruments - Note 20 to the Accounts

17. The note to the accounts incorrectly included payments in advance and grants received in advance within the amounts shown as financial assets and financial liabilities respectively. These were also incorrect in previous years and have now been corrected. This only affects the disclosure note and no further changes were required to the main statements.

Audit Fees

18. The auditor has confirmed their final audit fee for 2022/23 as £179,000 compared with the proposed fee of £128,815 in the audit plan. The increase in the fee is due mainly to the additional work required for the property asset valuation corrections necessary to the accounts. The Council will be seeking some contribution to these costs from the external valuer.

Audit Findings Report – Leicestershire County Council Pension Fund 2022/23

19. The auditor has completed their work and no material adjustments were required to the accounts.
20. During the audit there was one non-material adjustment identified totalling £3.8m relating to the valuation of hard to value pooled assets, which was not available when the accounts needed to be prepared. For these assets estimates have to be made as the valuations are not known for many months until after the year end date. The amount was not material overall and this was not adjusted for in the accounts. This was agreed with the external auditor.
21. There were two control issues reported relating to:
 - Journals below £20,000 auto approved. Access is limited to the central finance team only, but the limit will be reviewed, including Internal Audit being asked to review a sample as part of their annual assurance work.
 - Investment manager internal control reports and bridging letters – provide assurance on controls in place. Two investment reports were not received by the Council. The Council will continue attempts to obtain the required reports.
22. The proposed audit fees for the pension fund have been increased slightly from £36,793 to £38,193 due mainly to work required to review the Triennial pension fund valuation. A separate additional fee of £19,200 is made for work relating to the IAS19 accounting assurance letters undertaken by the Pension Fund's auditor on behalf of the main admitted bodies of the Fund. These charges are fully recharged to the respective admitted bodies.

Recommendation

23. The Committee is asked to note the External Audit of the financial statements 2022-23 and consider issues raised in the auditor's Audit Findings Reports and approve the draft letters of representation.

Equality and Human Rights Implications

24. None.

Circulation Under the Local Issues Alert Procedure

25. None.

Background Papers

Report to the Corporate Governance Committee 26 January 2024: External Audit of the 2022/23 Statement of Accounts, Annual Governance Statement and Pension Fund Accounts

<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=7410&Ver=4>

Report to the Corporate Governance Committee 26 May 2023: External Audit Plan 2022/23

<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=7129&Ver=4>

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Appendices

- Appendix A – Audit Findings Report for Leicestershire County Council 22/23
- Appendix B – Audit Findings Report for Leicestershire County Council Pension Fund 22/23
- Appendix C - Letter of Representation (County Council)
- Appendix D - Letter of Representation (Pension Fund)
- Appendix E – Updated Annual Governance Statement